



The Sustainability Accounting Standards Board  
75 Broadway, Suite 202,  
San Francisco, CA 94111  
USA

Handled by  
M. Mansfield

Our reference  
-

The Hague  
June 12, 2013

**Subject:** feedback on the proposed set of material disclosure items and associated accounting metrics for the insurance sector

Dear Sir/Madam,

As part of the request for public feedback on the proposed set of material disclosure items and associated accounting metrics for the insurance sector, we would like to provide some comments on the two questions that were raised.

*Question 1: Are the disclosure items material to a reasonable investor? Do the suggested accounting metrics accurately represent performance with respect to the associated sustainability issue? How would reported accounting metrics be used in making investment decisions? How would the metrics be useful for internal company management?*

For a disclosure item to be material, it should be relevant for decision making purposes and help investors in forming an opinion as to how a broad range of non-financial elements have been included into the insurance company's business model and strategy. In looking at how ESG factors have been integrated, the focus seems to be on the investment management process rather than the overall corporate strategy.

The indicators selected in the research briefing focus more on environmental factors than social or governance issues and so may be of more use to assessing risks and opportunities for companies in property and casualty insurance rather than life insurance or pensions. Under the category "incentivizing social and environmental performance", companies are asked to describe programs to incentivize responsible behaviour and energy efficiency; perhaps there is an opportunity to incorporate governance issues by asking companies to describe how they are using products such as directors and officers insurance products to promote responsible corporate governance.

Under the heading plan performance, the focus on customer satisfaction and persistency will help investors in modelling future profitability and cash flows. One area that could also be considered would be asking customers describe their processes to ensure that they are selling appropriate products and services to their customers. Such information would help an investor in assessing the quality of the products that are being sold, how companies are keeping up with changing customers needs, matching the complexity of their products with the ability of their customers to understand the features and benefits of what is being sold to them.

The performance indicator selected for the governance/regulatory issue will deliver more historical than future looking information by asking for details of legal and regulatory fines associated with compliance with regulations. A key issue that financial services companies have been struggling with since the crisis has been regaining trust and rebuilding reputations. To some extent this trust has been damaged by perceptions of excessive risk taking and a decoupling of executive pay from responsible management. Some indicators that would help investors assess management's commitment to improving corporate governance and incorporating a broader range of factors into decision making rather than just financial results could be worth considering.

The performance indicators that are reported externally should be closely aligned and matched with those that are used internally to manage the business, that way investors are making decisions based on the same information as management, resulting in greater alignment. A risk in establishing a list of indicators for an industry is it may be more relevant for some sub-sectors than others, e.g. the environmental factors would have a greater influence on the profitability of a property and casualty insurer than a life insurer. Standard setters have a choice in being principle based or more prescriptive where both options have advantages and disadvantages.

*Question 2: How costly would it be for companies to collect, analyze, and report information required for the proposed accounting metrics? Do you anticipate this cost to be a barrier to reporting, adoption, or usage of the proposed accounting metrics? What aspects of reporting, if any, would you foresee being most costly for reporting organizations?*

Some of the performance indicators represent information that is easily defined and should be readily available, e.g. customer retention rates, timeliness of claim processing etc. Other indicators are more judgmental, may be open to interpretation, and therefore would be more difficult and costly to collect, e.g. effectiveness of products and programs to incentivise responsible behaviour, probably maximum loss from environmental risks. For the indicators to be useful to investors they should be consistently compiled and comparable across the industry which would require clear definitions on what information should be included and excluded. Insurance companies are by their nature risk averse, also when it comes to reporting. Potentially there would be so some investment required internally to ensure that the requested information was being compiled based on sound reporting procedures with adequate controls to ensure the accuracy and reliability of the information.

We hope this feedback has been useful in further developing the briefing paper for the insurance industry. Should you require any additional information or we can be of further assistance to you, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M. van Weede', written in a cursive style.

Marc van Weede  
Global Head of Sustainability





## **SASB Financial Sector Feedback**

May 19, 2013.

Please find below my comments on four of the financial sector draft disclosure standards. I would be happy to provide further commentary on the below if not sufficiently clear for your purposes.

Best regards,

Coro Strandberg  
[www.corostrandberg.com](http://www.corostrandberg.com)

### **General comment on training and professional development:**

- Recommend for description and \$ value and number of staff trained in ESG issues relevant to the industry

### **General comment on systemic risk management:**

- Reference to harmonization is good, but should require harmonized risk management across all business lines including asset management, insurance, banking and corporate enterprise risk management

### **Assessment and Custody Activities**

- Employee incentives and compensation: include disclosure of non-financial metrics in performance compensation; if not why not
- Transparent information and fair advice for customers: include data privacy and security and measures/programs to support financial literacy
- Assets in management invested in companies that have a high climate risk exposure: include % of portfolio along with \$
- Environmental and social investment products: include % of portfolio along with 4
- Employee turnover: include %

### **Insurance**

- Integration of ESG: \$ and % of assets
- Investment in companies with a high climate risk exposure: \$ and %



- Add social risk exposure to environmental risk exposure (e.g. infectious diseases, obesity and diabetes, air pollution, aging, advances in medical technology, gender and genetic discrimination, food security and safety, terrorism)
- Describe measures to promote access to and affordability of insurance to underinsured individuals, businesses, sectors, communities and regions
- % of insured products susceptible to environmental and social risks - % and \$ value
- PML from environmental and social risks: \$ and %
- Total insurance payout: \$ and %
- Incentivizing social and environmental performance – describe products/programs to incentivize responsible behavior or minimize social and environmental risks for businesses and retail customers; # and % of clients which used the program
- Describe insurance products to incentivize environmental and social responsibility : \$ and %
- Describe insurance products to support innovative energy, low-carbon and social purpose business models: # and % of portfolio
- Customer privacy measures
- Measure to improve the social and environmental impacts of the claims process
- # and % of premium of companies denied insurance coverage due to not meeting ESG criteria
- Include employee incentives and compensation KPIs from assessment management, and include disclosure of non-financial metrics in performance compensation and if not why not

### **Consumer Finance**

- Revenue from products and services targeting minority groups: \$ and % of portfolio
- Revenue received from emerging markets: \$ and % of portfolio
- Include employee incentives and compensation KPIs from assessment management, and include disclosure of non-financial metrics in performance compensation and if not why not

### **Commercial Banks**

- Report on \$ value and % of loan portfolio turned down due to not meeting ESG criteria
- Amount of lending to companies or projects with a high climate risk exposure: \$ value and % of portfolio
- Number of EP projects screened: # and %
- Number and % of projects turned down which did not meet EP criteria
- Amount of lending \$ and % of portfolio
- Energy consumption per FTE
- % of renewable energy
- Employee turnover: %
- Include employee incentives and compensation KPIs from assessment management, and include disclosure of non-financial metrics in performance compensation and if not why not







5. Asset Management, Commercial Lending, Insurance & Investment Banking: The proposed standard asks to list assets under management for industries deemed to have high climate risk exposure. While this metric is helpful for understanding the impact of climate change on the business model of investments, it does not adequately address the quantitative material risk from their relative carbon intensities. Emissions are a measure of operational efficiency. There should also be a quantitative metric to address the damage cost of greenhouse gas emissions normalized to revenue as a measure of value at risk due to the carbon intensity of such investments. Trucost has been measuring these costs for over a decade and would be pleased to provide more information on the availability of data as well as appropriate methodologies for making quantitative assessments of climate change risk.

If you have any questions regarding these comments or need additional information, please feel free to contact me at the address listed below. We commend the SASB team for their efforts to create a series of relevant and timely sustainability standards, and look forward to work with you and provide feedback through the public comment period as well as the Technical Advisory Group.

Sincerely,

Divya Mankikar

Vice President, North America

Trucost PLC

[REDACTED]

[REDACTED]

## COMMENTS ON THE FINANCIAL STANDARDS FOR SUBMISSION TO THE SUSTAINABILITY ACCOUNTING STANDARDS BOARD

**Question 1:** Are the sustainability issues material to a reasonable investor? Do the suggested accounting metrics accurately represent performance with respect to the associated sustainability issue? How would the reported accounting metrics be used in making investment decisions? How would the metrics be useful for internal company management?

Yes, the sustainability issues are material to a reasonable investor. However, it might be worth including systemic risk management in all types of financial companies. The global financial crisis showed that all financial companies contributed to systemic risk. The suggested accounting metrics accurately represent performance with respect to the associated sustainability issue, although KPIs that require companies to describe procedures and programs are generally subjective and may be open to different interpretations by investors. There may be a need to establish benchmarks for what is best practice and what constitutes poor management to give investors an idea if the company is managing its risks in an acceptable manner. The metrics would be used to gauge a company's exposure and management of ESG risks.

**Question 2:** How costly would it be for companies to collect, analyze, and report information required for the proposed accounting metrics? Do you anticipate this cost to be a barrier to reporting, adoption, or usage of the proposed accounting metrics? What aspects of reporting, if any, would you foresee being most costly for reporting organizations?

It would be more costly for smaller companies than for bigger ones. The bigger companies already have the infrastructure in place to comply with more robust reporting, while smaller financial companies will be more constrained. Yes, this cost (and resource requirement) could be a barrier to reporting, adopting, or usage of the proposed accounting metrics. Some banks, for example, continue to refuse to release a full Sustainability Report due to the costs associated with producing one. The KPI that may require additional cost even for larger organizations is the following:

Describe procedure or programs to provide adequate, clear, and transparent information about products and services, including risks, suitability, alternatives, conflict of interest (e.g. inside information or firm positions), and role and legal responsibility for specific engagements (e.g. in origination or structuring of products with complex liens or risks, where the bank plays a market-making role, where it is using over-the-counter platforms).

This is not typically disclosed by banks and doing so would require more resources for the company and will generate concerns that disclosure can lead to more regulatory scrutiny.

### Comments submitted by:

**Sheila Oviedo**

Senior Analyst, Research Products

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Financial Industry  
Comments for SASB  
May 3, 2013

Steve Lydenberg  
Domini Social Investments, Initiative for Responsible Investment

Congratulations on a tremendous amount of excellent work. I'm very impressed. I think this is all headed in a very positive direction.

I was particularly impressed by the Industry Briefs. I thought on the whole they were well done.

I was particularly pleased to see that each included a listing of the factors that go into make up a "sustainable industry" for each sub-industry. This is, to my way of thinking, one of the most powerful parts of the Briefs and one of the major contributions that SASB can make, and I think can serve as a foundation upon which you can build further.

I am a bit disappointed that the number of specific KPIs still is creeping up to the 20+ range for each subindustry (27 for commercial banking—ouch!). This is the almost inevitable outcome of a robust and thorough research process incorporating substantial stakeholder consultation. It's simply part of doing your job well. It's understandable that that's where you are now. It is a phenomenon that needs to be carefully managed, however. SASB will soon be in questionable territory on number of indicators and length and detail of the required reporting if it not very careful and disciplined.

The primary challenge SASB faces now is **keeping it simple**. I realize one is always tempted to demonstrate expertise by devising elaborate indicators or calls for nuanced aspects of reporting that reflect particular insights. I've been there many times myself.

There are many virtues of simplicity, however. One of the main ones is that simple things are easy to understand and defend. The more complicated and numerous the KPIs the more likely they are to be the subject of complicated debates and attacks, technical disputes, and arguments and assertions that they will be costly to gather data on and report. The simpler your requests for mandated disclosure are, the easier it will to advocate for them. It is counter-intuitive to have an elaborate process result in a very simple request ("why did you bother with all that work if that's all you came up with?"), but don't let that instinct lead you astray. The simpler the better is what I would strongly advocate.

What are the practical implications of all this? Here's what I would suggest.

- The “portrait” of a sustainable subindustry is the most powerful tool you have. The bullet points you have here already are strong. You might think of narrative ways in which to present these that would make them more of a complete vision of a sustainable industry.
- While data-drive reporting is important, where we as investors will come to understand substantive differences between companies is in how the KPIs are incorporated into strategic management. For example: training—Company A reports \$1,000/employee/year spent on training, Company B reports \$800/employee spent (or even \$500/employee). What do you really know or what can you meaningfully say? But if each company explains in what way they are incorporating training into their overall strategic management of the firm, how this training relates (or doesn’t) to its overall sustainability goals, you will be able to see real differences. We want companies to be incorporating KPIs into strategic management—KPI issues won’t be taken seriously unless top management is incorporating them systematically into its strategic management. So why not ask directly whether it has or has not incorporated them into strategic management or not? Make that a framing issue and encourage company’s to act on it.
- What I’ve done below for each financial industry subindustry is reframe as a single question about strategic management the main sustainability-vision issues SASB has identified. I have suggested some word edits and occasionally added or subtracted KPIs. But the questions are really just the sustainability vision you have proposed. I would urge that SASB seriously consider including something like this in its final recommendations for required disclosure.
- As to the multiple specific data points identified for each industry as KPIs, I’m of two minds. They are well thought out and to a certain extent helpful. But I worry that even with this degree of industry specificity, many of them will not get at fundamental differences in how companies are being managed. This observation comes from many years of asking companies for more detailed information and then often finding that it in fact didn’t tell me what I really wanted to know—which is, what kind of a company are you really? I’m not sure what to suggest here. I worry about SASB wading into multiple distracting and confusing (to the public at large) controversies around individual KPIs. My best suggestion at the moment is somewhat arbitrary, but it might work. For each of the sustainability issues, SASB should identify one or at the most two data points for required disclosure. That seems to me to be the only way to keep data-driven reporting limited—which is one of SASB’s major selling points. Open-ended questions about strategic management and sustainability KPIs are not as subject to the criticism that they will require excessive time and effort to disclose—because if it’s strategic, then it’s hard for companies to complain that reporting on it is excessive and if they aren’t incorporating it into strategic management, we don’t want to hear about

meaningless side-efforts anyhow so no reporting is necessary. Also, an open-ended question leaves flexibility in the companies' hands. If they have a good story to tell, let them figure out how to tell it briefly—or tell it in substantial detail.

- What you might want to do with the many specific indicators that are coming out of the consultation process is suggest that they be SASB guidelines that companies can use voluntarily if they choose to do so, with the mandatory disclosure only a few data points and strategic management discussion. This would solve the problem of figuring their costs and relative benefits that would arise if they were all mandated and shift the emphasis to strategic management.

I hope this is helpful. You've made remarkable progress.

## Strategic Management and Sustainability Indicators

Here is my suggested “strategic management” question to be incorporated for each of the sub-industries. I have bolded suggestions for additions to the text.

### Asset Management and Custody

How are the following six sustainability factors integrated into your company’s strategic management and how successful has your company been in implementing them in practice?

1. Consideration of social and environmental risks and opportunities in investment decisions and management of existing assets.
2. Offering of innovative investment products and services that create positive social and environmental impacts.
3. Recruiting, developing and retaining a **diverse** and skilled base of employees.
4. Ensuring employee incentives and compensation are aligned with short- and long-term **societal and corporate** values and goals.
5. Providing transparent information and fair advice to clients, including on the ESG **characteristics** of assets under management.
6. Putting in place governance **and risk management** structures to ensure that regulations are complied with and criminal activity is detected and dealt with.

### Commercial Banks

How are the following nine sustainability factors integrated into your company’s strategic management and how successful has your company been in implementing them in practice?

1. Incorporation of ESG factors **into lending policies and practices**, including consideration of both risks and upsides.
2. Innovation to capture growth opportunities in underserved markets **while** supporting community development, **empowerment** and financial literacy.

3. **Recruiting, developing and retaining a diverse and skilled base of employees.**
4. Ensuring protection of customer information.
5. Ensuring employee incentives and compensation are aligned with short- and long-term **societal and corporate** values and goals.
6. Providing transparent information and fair advice to clients, engaging in responsible marketing and preventing **abusive** lending.
7. Putting in place governance structures to ensure that regulations are complied with and criminal activity is detected and dealt with.
8. Developing robust processes for risk management **at both company and systemic levels.**
9. Reducing of the environmental impacts of the branch network.

#### Consumer Finance

How are the following five sustainability factors integrated into your company's strategic management and how successful has your company been in implementing them in practice?

1. Innovation to capture growth opportunities in underserved markets **while** supporting community development, **empowerment** and financial literacy.
2. **Recruiting, developing and retaining a diverse and skilled base of employees.**
3. Ensuring protection of customer information.
4. Engaging in responsible lending and debt prevention **and reduction.**
5. Putting in place governance structures to ensure that regulations are complied with and criminal activity is detected and dealt with.

#### Insurance

This is a tough industry and your report does not fully cope with its nuances. Insurance can be thought of as four different industries and the report should acknowledge this. It consists of life insurance, property & casualty insurance, disability insurance and re-insurance. Each of these sub-industries is managed differently from a strategic point of view and each poses its own set of ESG risks and



opportunities. For example, life insurance involves issues that are strategically a combination of asset management and consumer finance. Re-insurance is all about risk management at a corporate level. P&C is also about risk management, but with a consumer/retail level flavor. Disability has many human resources management aspects that are crucial to it. The five sustainability issues identified so far are okay generically, but amore sophisticated job could be done. It's a lot of work, but I would say worthwhile if SASB is to home in on the key sustainability indicators.

### Investment Banking and Brokerage

How are the following seven sustainability factors integrated into your company's strategic management and how successful has your company been in implementing them in practice?

1. Incorporating environmental and social factors, considering both risks and upsides, in product structuring and origination and in services including: underwriting **initial public offering and debt offerings; mergers and acquisitions**; sell-side research; proprietary investments; and lending.
2. Recruiting, developing and retaining a **diverse** and skilled base of employees.
3. Ensuring employee incentives and compensation are aligned with short- and long-term **societal and corporate** values and goals.
4. Building strong client relationships through transparency and fair dealings.
5. Establishing policies and processes for compliance across multiple jurisdictions and ensuring non-compliance is detected and dealt with **proactively**.
6. Developing robust risk mitigation, detection and management processes at both the corporate and systemic levels.
7. Managing effectively the conflicts of interest related to various investment roles and responsibilities.

### Mortgage Finance

How are the following seven sustainability factors integrated into your company's strategic management and how successful has your company been in implementing them in practice?

1. **Incorporating** environmental performance **considerations**.

2. **Accounting for** the increased frequency of extreme weather events associated with climate change.
3. Providing **responsible** access to **historically** underserved populations.
4. Ensuring the availability of fair and transparent information **and promoting financial literacy and education.**
5. **Ensuring employee incentives and compensation are aligned with short- and long-term societal and corporate values and goals.**
6. **Ensuring responsible lending and debt prevention and reduction programs.** Working to prevent defaults.
7. **Putting in place governance structures to ensure that regulations are complied with and criminal activity is detected and dealt with.**

*Note: I thought the consumer finance indicators were crisper and more precise. I have incorporated some of them and the associated language here.*

### Security and Commodity Exchanges

How are the following five sustainability factors integrated into your company's strategic management and how successful has your company been in implementing them in practice?

1. Promoting **or requiring** material ESG disclosures by listed companies to provide relevant, decision-useful information for investors.
2. Offering products and services for emerging environmental and social markets.
3. **Assuring the reliability** of IT and trading systems to protect confidentially **and prevent computer-driven discontinuous trading events.**
4. Facilitating equal access to information and exchange service to all investors.
5. Managing conflicts of interest of interest between publicly traded, for-profit exchanges and the exchanges' role as self-regulatory organizations.





Sustainability Accounting Standards Board (SASB)  
75 Broadway, Suite 202  
San Francisco, CA 94111

June 14, 2013

Dear SASB Leadership Team and Staff,

We are pleased to submit our public comments to the Financials Sustainability Accounting Standards consultation.

Question 1: Are the sustainability issues material to a reasonable investor? Do the suggested accounting metrics accurately represent performance with respect to the associated sustainability issue? How would reported accounting metrics be used in making investment decisions? How would the metrics be useful for internal company management?

We find that the proposed Performance and Management Disclosure indicators for all sub-sections are material and well-formulated as they provide relevant information on the environmental, social and governance impact of different business models in the financials. Our recommendations are the following:

*1. Asset Management & Custody Activities, Investment Banking & Brokerage, and Commercial Banking*

We recommend an additional indicator to the section on Governance (Systemic Risk) that emphasizes the Board's oversight and the capacity building efforts to facilitate compliance with the new regulatory framework in the United States (e.g., Dodd-Frank regulation) and other international standards (e.g., Basel rules). Bearing in mind the stringent requirements of such new regulations, we believe that a mere description of risks and legal penalties is insufficient in addressing the soundness of business practices and the ethics of operations in investments and commercial banking. As a result, we believe that providing more information about companies' efforts to improve risk processes and their preparedness (e.g., "Action Plans") to mitigate future risks across operations is material to investors. In this regard, we believe that a qualitative disclosure of the Board's oversight of risk management practices would allow investors to better understand the quality of management and would help to enhance the transparency and accountability of governing structures and mechanisms. In conditions of post-financial crisis, such disclosures would also show how financial companies are working towards promoting a company-wide culture of risk mitigation and how they are raising awareness about those issues among their employees and managerial staff. We view such governance disclosure as material to investors as it signals business continuity and crisis prevention efforts of a well-governed business. All of these factors would help to provide greater value to society and shareholders.

We recommend an addition to the sections Social and/or Governance of a qualitative indicator that addresses the promotion of a proper alignment between executive compensation structures and long-term shareholder value. We believe that a company's remuneration structures should give consideration to the integration of risk management with executive compensation. It would be helpful for financial services companies to provide information on the motivation that is behind their remuneration policies and practices. Such compensation disclosure should reference the level of long-term risk involved in generating profits so that investors have a better understanding of the steps that companies are taking to combat inappropriate risk taking and promote financial stability. It is material for investors to know how companies are complying with emerging regulations and requirements, and how they consider them as a benchmark for good business practices.

## *2. Consumer Finance, and Mortgage Finance*

We recommend an additional indicator to the Social section that stresses the role of consumer education and how companies seek to educate customers and the broader public on the risks and opportunities of their financial products and services. In consumer finance, such disclosure refers to educational efforts on risks and opportunities of debt-protection/insurance products, prepaid card products, including fees and interest charged. In mortgage finance, in addition to efforts to provide clear, transparent, and timely communication to customers on risks, terms and fees, companies should also report on how they facilitate educational activities for customers on the risks and opportunities in undertaking different kinds of mortgages.

We recommend an additional indicator to the section on Governance that emphasizes the Board's oversight over governance of the public policy agenda with regard to existing and emerging consumer finance industry regulations (state and federal) and with regard to existing and emerging mortgage industry regulations.

## *3. Insurance*

We recommend an additional indicator to the Social section that stresses the role of consumer education and how insurance companies seek to educate customers and the broader public on climate change risks and opportunities. These include efforts to raise awareness on the economic and social impacts of climate change, and how insurance products and services can help build environmental and economic resilience and adaptation.

## *4. Security & Commodity Exchanges*

We recommend an additional indicator to the section on Governance that emphasizes the Board's efforts in implementing the exchange's policy for listing requirements on sustainability disclosures, and what actions they are taking to prepare issuers to comply with the new listing requirements. Such disclosure focuses on training and capacity-building among issuers, employees and managerial staff, as well as reporting on building multi-stakeholder and collaborative efforts by working with investors and regulators in seeking to achieve those goals.

Question 2: How costly would it be for companies to collect, analyze, and report information required for the proposed accounting metrics? Do you anticipate this cost to be a barrier to reporting, adoption, or usage of the proposed accounting metrics? What aspects of reporting, if any, would you foresee being most costly for reporting organizations?

We believe that strengthening the Board's oversight over governance of risk management and building stronger capacities of educating employees and customers on the risks and opportunities of financial products and services are critical and material to good management and creating shareholder value. If there are good systems in place collecting, analyzing and reporting on additional information, these efforts should not be very costly and should not be a barrier to the adoption of such metrics. In addition to any such incremental reporting costs, companies would likely incur additional legal costs associated with the review of the additional disclosures. We do not believe that this disclosure would add burdensome costs to companies, investors and stakeholders.

Sincerely,

A handwritten signature in black ink that reads "Farha-Joyce Haboucha". The signature is written in a cursive style and is underlined with a long horizontal stroke.

Farha-Joyce Haboucha,

Managing Director and Director of Sustainability and Impact Investments

Rockefeller & Co.

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