



Meeting great expectations

Analysis and insights of stewardship engagement and outcomes for asset owners



EY

Building a better working world

Contents

Foreword: Sustainable finance – navigating insurer stewardship responsibilities	01
1 Summary insights and findings	06
2 Insurers' roles as responsible stewards	10
3 A deep commitment to the public interest	12
4 In-depth review and the way forward	17
5 Methodology	24
Acknowledgements	27

The defining issues of 2020 demand purposeful and responsible stewardship

It is difficult to imagine a more consequential moment than this. 2020 has seen truly unprecedented challenges shake nations, businesses and communities worldwide. It is not just the COVID-19 pandemic, the countless economies in freefall, the global demands for racial equality or the imminent dangers posed by climate change. It is also the confluence of these seismic events that will transform the future any one of us would have predicted only a short whilst ago.

Stewardship is a powerful vehicle for meeting the moment; for asset owners in particular, the bar has been raised to a breath-taking new height. The UK Stewardship Code 2020 (the 2020 Code) boldly redefines stewardship as:

'The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.'¹

The 2020 Code introduces a range of new considerations:

- ▶ It assigns specific responsibilities to asset owners, and prohibits them from delegating these.
- ▶ It covers all asset classes, extending beyond listed equity.
- ▶ It concentrates focus on engagement activity and outcomes.
- ▶ It requires environment, social and governance (ESG) to be embedded within investment decision-making.
- ▶ It demands candid, fair and balanced reporting on an 'apply and explain' basis.

We have applied our unique EY stewardship maturity model and methodology to provide analysis and insights intended to enhance insurers' stewardship engagement and reporting requirements. This report is the culmination of our analysis of the public stewardship reporting of 39 UK-based insurers and asset managers, identifying gaps, highlighting examples of best practice, providing recommendations and further explore the role insurers can and should play in the 'now', the 'next' and the 'beyond'.

Responsible stewardship for today demands a transparent commitment for tomorrow. Insurers will be measured not just on the extent of their policy coverage and pay-outs, but also on their management of conflicts, monitoring of asset managers and the long-term, public interest outcomes insurers' stewardship activities drive. Amongst these, insurers should expect an intense focus, and therefore offer their greatest engagement and transparency on the following systemic risks:

- ▶ Economic recovery
- ▶ Climate change
- ▶ Diversity and inclusion (D&I)



Gareth Mee

Partner, UK Insurance Head of Sustainable Finance
Ernst & Young LLP
gmee@uk.ey.com



Loree M. Gourley

Director
Regulatory and Public Policy
Ernst & Young LLP
lgourley@uk.ey.com

¹ Source: Financial Reporting Council (FRC) UK Stewardship Code 2020, Page 4 ([LINK](#))

Power of responsible asset owners stewardship.

“

EY's commitment to promoting better stewardship and the pursuit of purpose as the corner-stone of a 'reset' of contemporary capitalism is long-standing, but this report breaks new ground. In differentiating between the ranking of the priorities of asset owners and asset managers, and recording their only modest and differing degrees of engagement to the injunctions of stewardship as set out in the revised and more demanding stewardship code, EY has broken new and illuminating ground. Congratulations to the team who wrote the report, and all the companies who so honestly took part. This is a clarion call for stepping up all our efforts in the months ahead as the March 31 2021 sign-up deadline for the new code approaches.



Clare Chapman

CoChair,
The Purposeful Company



Will Hutton

CoChair,
The Purposeful Company



Jessica Fries

Executive Chairman,
Accounting for
Sustainability (A4S)

“

Asset owners, such as pension funds, insurers and sovereign wealth funds, control a large proportion of global assets. If asset owners use their influence through adopting responsible stewardship activities (often exercised through their asset managers) to invest more sustainably, demand better information and practices from companies, as well as educate and consult their ultimate beneficiaries about the sustainability impact of the investments they do on their behalf, this would make a significant impact on sustainable development and contribute to long-term value creation globally. As many are seeing at the current time, there is a clear link between those companies that have a strong sense of purpose, delivering positive social and environmental impact, and those that are proving to be more resilient and performing better financially, a connection that investors have an important role in supporting through responsible stewardship.

“



Andy Griffiths

Executive Director,
The Investor Forum

There are many types of asset owners, just as there are many types of asset manager, but insurers have long been amongst the most influential stewards in UK capital markets. With society’s increasing focus on purpose, stewardship is moving centre stage and with that move comes a responsibility to demonstrate impact.

Asset owners and asset managers must now go much further than statements and policies — they must give life to their stewardship ambitions through engagement. For stewardship to be effective the entire investment chain needs to unite in a focus on the creation of long-term sustainable value — it is time for asset owners to engage the engagers.

Outcomes from good insurer stewardship.



Paul Druckman

Chairman,
World Benchmarking
Alliance (WBA)

“

Asset owners are a necessary driver of the changes needed throughout the investment value chain. Asset owners can drive change as fast if not faster than regulators and/or governments through powerful market signalling measures, such as issuing proclamations and mandates for asset managers relating to how they manage capital and investments.

So whilst this EY Stewardship report focuses on good practices in the UK, these asset owners have the distinct advantage to be able to drive change more swiftly, as well as to inform best practice, in other jurisdictions.

“



**Sarah
Keohane Williamson**

CEO, FCLT Global

One of the key drivers of long-term value creation is engagement across the investment value chain to provide staying power to pursue long-term goals. Strong stewardship principles can lay the foundation for this engagement.



Martin Lipton

A founding partner of
New York
law firm Wachtell, Lipton,
Rosen & Katz

“

The role of asset owners and insurer stewardship is critical in achieving the goals of sustainable long-term growth in the value of companies and fair treatment of all stakeholders. Asset owners - insurers and asset managers now have the same obligations for disclosure of their stewardship principles and for engagement with companies to achieve mutual understanding of goals.

This report is an excellent description of the current state of stewardship priorities of asset owners and insurers, their responsibilities under the UK 2020 Stewardship Code and gives insightful recommendations for alignment, improvement and preparation of the stewardship codes to be filed by 31 March 2021.

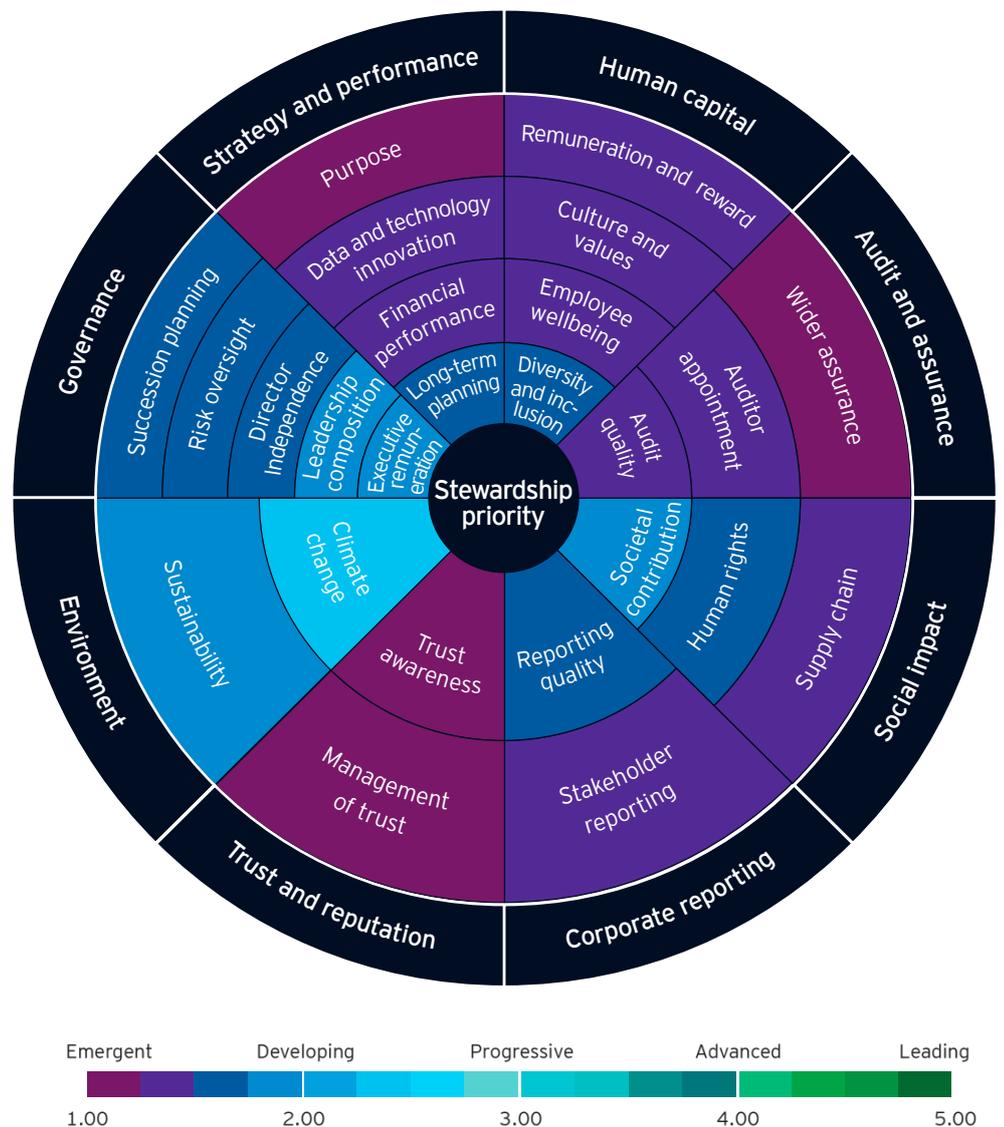
1

Summary insights and findings

Key findings

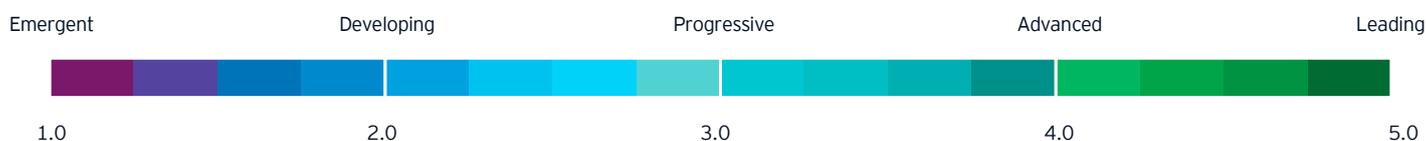
We applied our unique EY stewardship methodology and maturity model (details on page 22) to assess the stewardship priorities of 39 UK-based insurers and asset managers as reflected in their public stewardship reporting.

The wheel on the right sets out a wide range of stewardship priority areas and the extent of investor engagement across them as revealed in our review.



Our review provides a view on investor stewardship priorities in the aggregate, and contrasts findings between asset managers and asset owners.

Stewardship focus area	Stewardship sub-category	Asset owner sub-category average	Asset manager sub-category average	Overall sub-category average	Overall priority area average
Environment	Climate change	2.05	3.33	2.64	2.55
	Sustainability	2.00	3.00	2.46	
Governance	Executive remuneration	1.10	3.22	2.08	1.77
	Leadership composition	1.19	3.06	2.05	
	Director independence	1.00	2.44	1.67	
	Risk oversight	1.19	2.00	1.56	
	Succession planning	1.00	2.11	1.51	
Social impact	Societal contribution	1.76	2.33	2.03	1.65
	Human rights	1.19	1.94	1.54	
	Supply chain	1.00	1.83	1.38	
Corporate reporting	Reporting quality	1.00	2.11	1.51	1.50
	Stakeholder reporting	1.05	2.00	1.49	
Human capital	Diversity and inclusion	1.00	2.39	1.64	1.46
	Employee wellbeing	1.05	1.94	1.46	
	Culture and values	1.05	1.89	1.44	
	Remuneration and reward	1.00	1.61	1.28	
Strategy and performance	Long-term planning	1.14	2.00	1.54	1.33
	Financial performance	1.05	1.83	1.41	
	Data and technology innovation	1.00	1.56	1.26	
	Purpose	1.05	1.17	1.10	
Audit and assurance	Auditor appointments	1.00	1.89	1.41	1.26
	Audit quality	1.00	1.67	1.31	
	Wider assurance	1.00	1.11	1.05	
Trust and reputation	Management of trust	1.00	1.44	1.21	1.19
	Trust awareness	1.00	1.39	1.18	



Please see page 24 for more information on our methodology.

Asset owners insights and observations

We reviewed the public stewardship reporting of 21 of the largest UK-based insurers as part of our analysis. We have found:

1

There is a trend towards more extensive statements and policies on stewardship activity.

Very few insurers completely absolve themselves of stewardship responsibilities, and some are outlining future plans for delivering more effective stewardship.

However, there is a stark reporting divide between asset managers and insurers. Considerably more is needed from insurers to meet the heightened expectations of the 2020 Code.

2

However, these do not necessarily translate to the required evidence of activities and outcomes.

Our analysis uncovered limited evidence of how insurers actively engage with asset managers on stewardship priorities. Even where stewardship policies are in place, it is not always clear what specific activities are taken against these. Where outcomes are disclosed, they are often qualitative, impeding efforts to measure their benefits to the economy, the environment and society.

3

Many insurers delegate their stewardship responsibilities – contrary to 2020 Code expectations.

In some instances, insurers acknowledge delegating stewardship responsibilities to asset managers. Yet few, if any, explain how they interact with, and retain accountability for, their asset managers' stewardship activities.

Several insurance in-house asset managers are signatories to the UK Stewardship Code 2012 (the prior stewardship code), despite their corresponding asset owners not being signatories. This presents a conflict risk and the potential for misaligned stewardship expectations.

4

Even amongst the greatest stewardship priorities, there is much room for improvement.

Insurers appear to prioritise climate change, sustainability and societal contribution above other areas for stewardship engagement.

Yet even as priorities, the average scores for each of these are generally low. For example, the average score for climate change – the highest-rated subcategory for asset owners stands at 2.05, which is still significantly lower than the asset manager result for the same stewardship priority.

The average score of 1.00 for trust and reputation reflects this being a low stewardship priority for asset owners, despite the critical role trust plays in their social licence to operate.

We also reviewed the public stewardship reporting of 18 of the largest UK-based asset managers most significantly engaged by the insurers whose reporting we reviewed.

1 Asset managers' stewardship reporting is broadly improving.

When compared with scores from prior years' reporting,² asset managers generally demonstrated improvement and greater transparency over their stewardship engagement and outcomes.

The greatest gains were seen in the areas of sustainability, diversity and inclusion, and stakeholder reporting.

2 Asset managers show a strong awareness of their stewardship responsibilities.

Asset managers tended to provide numerous reports and insights, showcasing the recognition of their responsibilities to promote good stewardship practices with their investees. Across all stewardship priority areas, asset managers scored higher than asset owners (insurers).

Many asset managers have also gone beyond regulatory requirements to pursue specific ESG initiatives and providing academic insights.

3 Environmental and governance themes emerged as asset managers' key priorities.

Asset managers' stewardship reporting was most expansive around climate change, executive remuneration, leadership composition and sustainability, each of which received 'progressive' scores, reflecting active stewardship engagement.

A further drill-down on the prioritisation of executive remuneration revealed varied motivations, including a response to the public outcry around wealth inequality.

4 There are mixed levels of alignment between insurers' stewardship priorities and those of the asset managers they engage.

Societal contribution, which ranked third amongst insurers' priorities, ranked considerably lower (seventh) for the asset managers those insurers engage. This raises questions around monitoring effectiveness and accountability.

Generally, asset managers' focus on governance themes were also not matched as priorities for insurers.

² Based on our 2019 review of investor stewardship, 'Turning the tide to greater corporate accountability' ([LINK](#))

2

Insurers' roles as responsible stewards

Sustainable finance and the power of insurance companies as responsible investors.

Insurance companies are a powerful force in the investment chain. With over €2.4 trillion in assets under management for UK insurers alone³, they play a critical role to our capital markets both in providing financial stability and protection, and in reducing uncertainty through indemnity of losses.

With this power comes responsibility. The continuing rise of insurers as owners of corporate debt and equity enables them to tangibly influence corporate behaviour – both in terms of improved corporate governance and performance, and also long-term stability and satisfying broader stakeholder interests. Indeed, when the FRC consulted on its bold new definition for stewardship, it was the asset owners in particular who urged that the responsible allocation and management of capital must '[lead] to sustainable benefits for the economy, the environment and society.'⁴

Coming explicitly under the remit of the 2020 Code as asset owners, insurers are expected to use their outsized influence to shape investment strategies that fit the values and priorities of the investors (policy holders) they represent. This requires both taking account of their beneficiaries' views and being accountable for how assets were managed in alignment with them.

Becoming a signatory to the 2020 Code:

- ▶ Investors seeking to become the first signatories to the 2020 Code must prepare and submit stewardship reports by **31 March 2021**.
- ▶ These will be assessed for adherence to the letter and spirit of the 2020 Code and its 'apply and explain' basis for adoption.
- ▶ Investors satisfying 2020 Code requirements will be included in a preliminary list of signatories published in summer 2021.
- ▶ Applicants whose stewardship reporting falls short will be excluded from the list of initial signatories.

³ Source: EIOPA Insurance Statistics ([LINK](#))

⁴ Source: FRC UK Stewardship Code 2020, Page 4 ([LINK](#))



Embedding the principles – the bar has been raised

One of the key principles for both asset owners and asset managers under the 2020 Code is that they ‘cannot delegate their responsibility and are accountable for effective stewardship’. For insurers, this means there needs to be clear and transparent communication and processes in place with their asset managers around stewardship priorities, activities and outcomes.

In a marked step change, the 2020 Code also sets out a raft of new expectations to be fulfilled on an ‘apply and explain’ basis – as to how asset owners should engage with asset managers to enforce stewardship responsibilities, including:

- ▶ Asset owners are clear about their stewardship expectations and objectives.
- ▶ Asset owners clearly articulate these expectations with their asset managers both contractually and non-contractually.
- ▶ Asset owners put mechanisms in place to determine where stewardship objectives have been met or not.
- ▶ Asset owners identify information required from asset managers to assess if objectives are met.
- ▶ Asset owners put processes in place to carry out these assessments.
- ▶ Asset owners hold asset managers to account where they do not meet asset owners’ stewardship objectives.
- ▶ Asset owners drive consistency regarding stewardship responsibilities across all asset managers, with additional care to be taken in respect of internal asset managers and potential conflicts of interest.

3

A deep commitment to the public interest

Insurance is a long-term business that relies on trust.

“

In the insurance business there is no product and nothing is made except a promise. Insurance offers promises as a trade and, due to this, the most important word in the insurance vocabulary has to be ‘trust’.

Nick Turner, President of the Charter Insurance Institute

The confluence of seismic events shaping 2020 underscores the urgency of a deep commitment to the public interest. Whilst all actors in the business ecosystem have a role to play, that of insurers is particularly crucial, given their economic responsibility in shouldering debt burdens and providing investment solutions.

Stakeholder expectations are changing rapidly. Asset owners, and specifically insurers, must do more to build relationships with and demonstrate advocacy on behalf of not just their clients, but the broader stakeholder groups representing the economy, environment and society at large. Through this, insurers can gain a powerful opportunity to strengthen trust.

Transparency is key – so is measurability. Given the decline in trust in business over recent years, there is a significant risk that expounding good intentions alone will fall short of needs and expectations.

To be recognised as responsible stewards in the capital markets and society, insurers must demonstrate tangible, evidence-based outcomes that deliver continuously across a long-term horizon. In light of recent world events, public interest activity should focus on, although not necessarily be limited to:

- ▶ Economic recovery
- ▶ Climate change
- ▶ Diversity and inclusion



Delivering on purpose is vital.

In recent years, most large insurance companies have developed purpose and vision statements. These typically reflect a universal desire for peace of mind and financial security. They express a commitment to 'be there' for customers in their hour of need.

Yet, much work remains to be done in translating these statements into actions. This will become a critical priority for insurers – both in demonstrating their public interest commitment and in fulfilling the requirements of the 2020 Code:

- ▶ The purpose of the organisation and an outline of its culture, values, business model and strategy.
- ▶ Their investment beliefs.
- ▶ What actions they have taken to ensure their investment beliefs, strategy and culture enable effective stewardship.
- ▶ How their purpose and investment beliefs have guided their stewardship, investment strategy and decision-making.
- ▶ An assessment of how effective they have been in serving the best interests of clients and beneficiaries.⁵

For many asset owners, meaningfully meeting these obligations on behalf of clients and broader stakeholders will require a step-change in stewardship resourcing. This is explicitly expected by the 2020 Code.⁶ In demonstrating their commitment to the public interest, insurers may seek to adopt examples of best practice employed by some corporates, including:

- ▶ Influencing policy makers on behalf of beneficiaries.
- ▶ Commissioning research.
- ▶ Public communication on key social and/or economic issues.
- ▶ Funding or branding to support industry groups.

The COVID-19 pandemic, economic downturn and recent civil unrest relating to racial equality continue to raise questions as to how firms and industries can best support people and businesses during and beyond this period. Insurers – with their critical role in underwriting risks, providing individual and group protection, and supporting savings and investment – are uniquely placed to make a visible difference by demonstrating they live their purpose through their stewardship activities.

⁵ Source: FRC UK Stewardship Code 2020, Page 8 ([LINK](#))

⁶ Source: FRC UK Stewardship Code 2020, Page 7 ([LINK](#))



Public interest commitments make good financial sense.

Performance of sustainable vs. conventional funds Q1 2020.

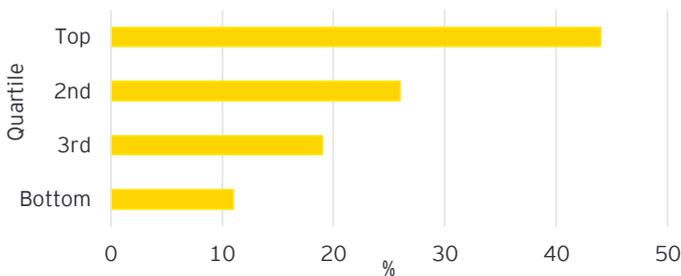
Examining the performance of sustainable vs. conventional funds over Q1 2020 (the beginning of the COVID-19 pandemic), shows that whilst sustainable funds suffered losses, these were less severe than the losses incurred by conventional funds.

Research⁷ based on Q1 2020 returns of 206 sustainable equity open-ended and exchange-traded funds in the United States of America demonstrated that sustainable funds performed better on a relative basis.

Sustainable index funds performed better than conventional index funds covering US stocks, non-US developed markets stocks and emerging market stocks. As the sustainable index funds:

- ▶ Had less exposure to energy stocks (e.g., airlines and oil companies).
- ▶ Were overweight in low carbon technology, which was the best performing sector in Q1 2020.
- ▶ Had stocks with better ESG credentials, which may be more resilient in light of current conditions.

US sustainable funds – Q1 2020 return rank %



⁷ Source: Morningstar - 'Sustainable funds weather the first quarter better than conventional funds', 03 April 2020 ([LINK](#))

Other mechanisms to support the public interest.

Regulators have incorporated societal value in COVID-19 guidance on measures for insurers.

“

When UK insurers' boards are considering any distributions to shareholders or making decisions on variable remuneration, we expect them to pay close attention to the need to protect policyholders maintain safety and soundness, and in so doing, to ensure that their firm can play its full part in supporting the real economy throughout the economic disruption arising from COVID-19.

Letter from Sam Woods (Deputy Governor and CEO, Prudential Regulation Authority) to insurers on distribution of profits dated 31 March 2020.⁸

We have identified three potential opportunities for the insurance industry and the government to work together to support economic recovery. These would complement existing protection afforded by insurance, to provide immediate support to the current COVID-19 crisis. With all of these opportunities there are a number of practical, legal and regulatory, public policy, and future coverage considerations to be resolved and agreed.

Opportunity

Generate a transmission vehicle to enable the insurance industry and government response.

- ▶ Insurers can provide a direct route to all businesses with employees through compulsory employers liability policies.
- ▶ A transmission vehicle could be used to consolidate losses together and provide a single interaction point into the industry.
- ▶ Government payments can be injected into the insurance system for distribution, providing fast deployment.
- ▶ Suitable proxies can determine appropriate pay-outs with data that is readily accessible for all and payments made using insurer's infrastructure.
- ▶ Through setting up this mechanism an approach can be built in to privatise cover for future risks improving economic resilience.
- ▶ A transmission vehicle could also be used to inject government support into the insurance industry and address solvency and liquidity issues.

⁸Source: PRA -letter from Sam Woods to insurers about distribution of profits, 31 March 2020 ([LINK](#))

Opportunity two

Create an insurance product to provide support and liquidity to rebuild financial strength.

- ▶ Insurers can provide direct stimulus to specific economic segments, for example self employed, micro SMEs vice versa (small and medium-sized enterprises). This could potentially be used as 'black start' working capital.
- ▶ Customer purchases of long-term insurance arrangements (for example, a 10 to 20 year policy) for pandemic-related business interruption.
- ▶ At inception, the cover would have a waiting period or excess which would be retained by the insured. After which the customer could make claims, including for the current COVID-19 pandemic.
- ▶ Premium would be paid over policy term, amortising cost of claims (including this pandemic) over the longer-term and providing cover for future events.
- ▶ The government could provide initial cashflow to cover claims payments early in the policy lifecycle.

Opportunity three

Provide a loan from insurers, secured by the UK Government through a government credit insurer.

- ▶ Insurers can extend the balance sheet of the UK Government by providing long-term loans to the SME market.
- ▶ Loans provided to SMEs through a repurposed Government credit insurer, the British Business Bank or a new entity (e.g., HM Credit).
- ▶ The government would underwrite the first loss on a pool of loans meeting the government specified criteria up to a total limit.
- ▶ Criteria for the loans could be aligned to the 26 March COVID-19 package for SMEs which has already been agreed by Government. The long-term finance offered by insurers would be a supplement to the existing plan.

“

EIOPA considers that it is essential to ensure the access to and continuity of insurance services, safeguarding the ability of the insurance sector to continue to perform its role as risk transfer mechanism from citizens and businesses and its capacity to mobilize savings and invest them in the real economy.

European Insurance and Occupational Pension Authority (EIOPA) statement on dividends distribution and variable remuneration policies in the context of COVID-19, 2 April 2020⁹

⁹ Source: EIOPA – 'Statement on dividends distribution and variable remuneration policies in the context of COVID-19', 02 April 2020 ([LINK](#))

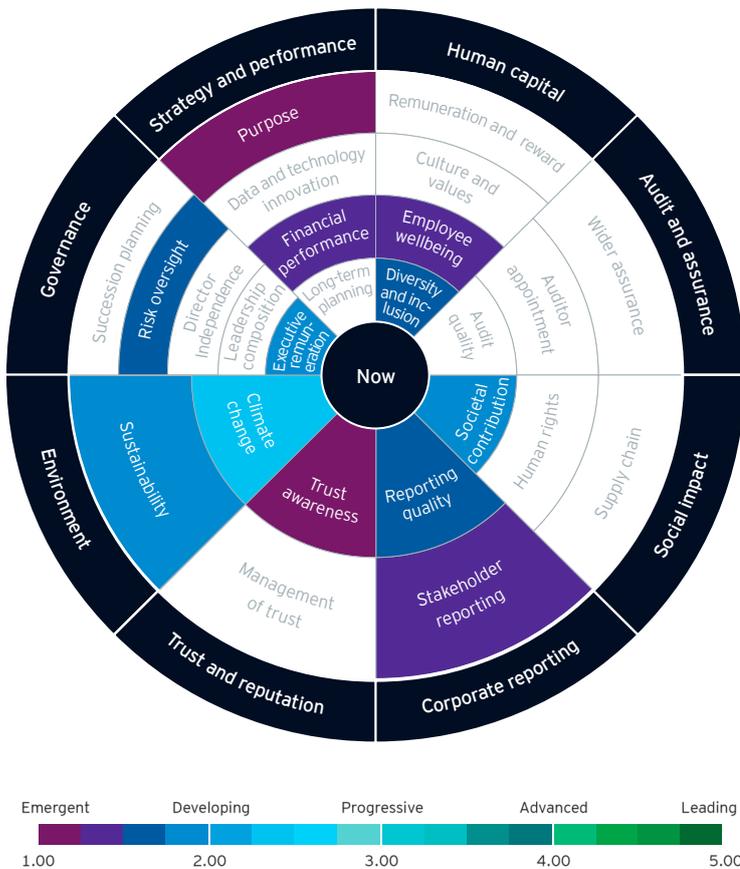
4

In-depth review and the way forward

Over the next few pages, we take a detailed look at the role stewardship will play over the coming months and years. We have proposed priorities for insurers and set out our observations and suggestions across three time horizons: the now, the next and the beyond.

Now

Enabling companies to navigate and survive a confluence of events.



Context

The urgencies now facing the business community are unprecedented in scale, but were not unforeseen. As recently as 2019, a panel of scientists at the World Economic Forum in Davos presciently warned investors of the risk of a devastating biological disease. Their message, and those of scientists for years, was clear: a pandemic is overdue, and the world will not be adequately prepared¹⁰.

Racial inequality has rapidly become a major focus for worldwide protests demanding action. Whilst these were sparked by recent events, the issues being raised are also not unforeseen.

As investors consider how to best deliver on their stewardship responsibilities in these times, the FRC has urged that they will need to account for past inaction.¹¹ This candour will be critical not only to satisfying requirements under Principle four of the 2020 Code, but also to preserving all investors' social licence to operate.

¹⁰ Source: World Economic Forum – 'Risks to Global Businesses from New Era of Epidemics Rival Climate Change', 18 January 2019 ([LINK](#))

¹¹ Source: Financial News – 'Asset managers forced to disclose pandemic failures under new stewardship code', 26 May 2020 ([LINK](#))

Investors will also be expected to demonstrate how, in the immediate term, they are using their influence to address the most urgent issues currently impacting their stakeholders. This is particularly important for UK insurers given the scale of their holdings – more than €2.4 trillion in invested assets¹² – and their responsibility for growing these to fund future claims, people’s retirements and enable businesses to seize innovative opportunities in new or uncertain areas.

Areas for focus and our findings

For investors in general, and insurers in particular, EY team consider that stewardship activities dedicated to economic recovery, climate change, and diversity and inclusion are most likely to directly address urgent stakeholder interests. Almost half (12) of the stewardship sub-priorities, out of the 25 we examined, correspond to those shown in the table below:

Stewardship sub-category	Score
Climate change	2.64
Executive remuneration	2.08
Sustainability	2.46
Societal contribution	2.03
Diversity and inclusion	1.64
Risk oversight	1.56
Reporting quality	1.51
Stakeholder reporting	1.49
Employee wellbeing	1.46
Financial performance	1.41
Trust awareness	1.18
Purpose	1.10
Average across the above	1.71

In the aggregate, our analysis portrays a stark divide between immediate stakeholder needs and stewardship priorities pursued. An average score of just 1.71 was received across the 12 ‘now’ stewardship sub-priorities. That score – sitting between emergent and developing – indicates significant opportunities exist for insurers, and the asset managers they engage, to provide greater transparency over stewardship activities and outcomes related to urgent stakeholder interests.

For each of the 12 ‘now’ stewardship sub-priorities (and indeed for all 25 sub-priorities reviewed overall), asset owners on average scored notably lower than asset managers. This indicates that, whilst stewardship reporting needs to improve for all investors across the value chain, the greater step-change will be required of insurers.

Notably, the top five scoring sub-priorities – climate change, executive remuneration, sustainability, societal contribution, and diversity and inclusion -represent core areas of ESG focus. This presents an opportunity to accelerate engagement and transparency to demonstrate ESG commitment, as required by the 2020 Code.

Actions to take now

- ▶ Stewardship activities should address the immediate challenges of COVID-19, the economic downturn, racial equality, and climate change.
- ▶ Reporting should be candid, fair and balanced.
- ▶ Investors should demonstrate outcomes achieved from their stewardship activities. Where desired outcomes were not achieved, they should explain why.
- ▶ Insurers should provide clarity about their stewardship expectations and demonstrate that they actively monitor whether and how these are met.
- ▶ Asset owners should engage with asset managers to set up reporting mechanisms.

¹² Source: EIOPA Insurance Statistics [\(LINK\)](#)

Next

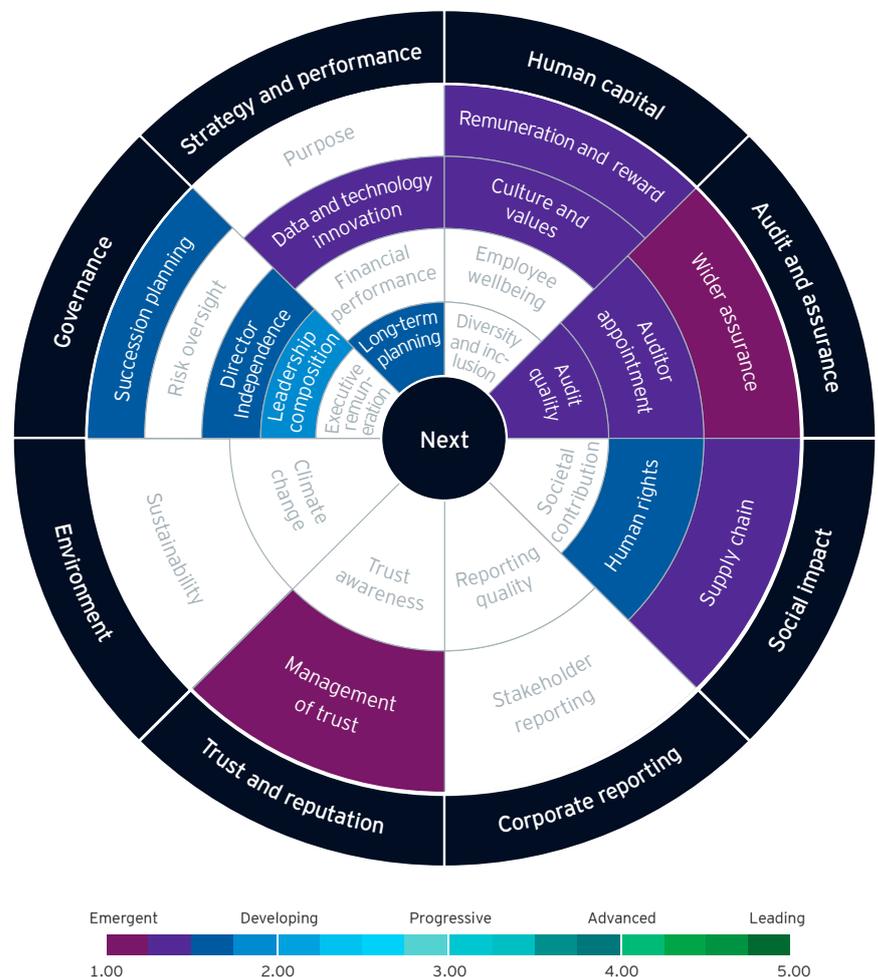
Supporting companies as they adapt to a radically changed economic, regulatory and stakeholder environment.

Context

As the recovery progresses, major shifts in stakeholder behaviours and requirements are likely to drive significant cross-sector changes for businesses. Unfamiliar events in this new landscape, and resulting opportunities and risks, will heighten yet further the essential role of stewardship in enabling the greatest potential for long-term value generation in a post COVID-19 crisis global economy.

Whilst each sector will experience its own unique challenges, a vast range of transformative events potentially face businesses at a cross-sector, macro level. Included amongst these are:

- ▶ Abandonment of single-source and just-in-time supply chains.
- ▶ Accelerated adoption of artificial intelligence and automation.
- ▶ Stronger consumer focus on social responsibility and the climate agenda.
- ▶ Greater range, usage and reliance on information technology.
- ▶ Rapidly shifting brand loyalties and company dominance.
- ▶ Deeper customer relationships driven by advancements in digital skills.
- ▶ Energy-technology investment opportunities and advancements.
- ▶ Reduction in city-centricity driven by more remote working and virtual events.



Principle 1 of the 2020 Code requires investors both to 'create long-term value for clients and beneficiaries', and to demonstrate that their stewardship activities and outcomes have led to 'sustainable benefits for the economy, the environment and society.'

Meeting these aims within a transformed marketplace will require investors to carefully monitor sectoral changes and to use their insights whilst engaging across a broader range of stewardship priorities.

Amongst asset owners, insurers in particular, will be expected play a leading part, in light of their role in enabling businesses, to pursue opportunities in new and uncertain areas.

Areas for focus and our findings

Without diminishing their focus on the stewardship priorities required for the 'now', investors in the recovery period should consider deepening their engagement across an additional 13 areas, as reflected in the table below.

Stewardship sub-category	Score
Leadership composition	2.05
Director independence	1.67
Long-term planning	1.54
Human rights	1.54
Succession planning	1.51
Culture and values	1.44
Auditor appointments	1.41
Supply chain	1.38
Audit quality	1.31
Remuneration and reward	1.28
Data and technology innovation	1.26
Management of trust	1.21
Wider assurance	1.05
Average across the above	1.43

Our analysis indicates there are significant opportunities for insurers and the asset managers they engage to provide greater transparency over stewardship activities and outcomes across a broader range of priorities.

Areas such as supply chain (1.38), data and technology innovation (1.26), and management of trust (1.21) all scored as emergent, despite directly corresponding to specific disruptions that businesses are anticipated to experience in the near future.

Our review also reveals gaps between asset owner priorities and those of the asset managers they engage. As an example, director independence received an average score of 1.67, based on an asset manager score of 2.44 and an asset owner score of 1.00. This suggests either a misalignment in priorities, demonstrating an opportunity to improve monitoring and accountability for stewardship activities, or an omission in asset owner reporting around their prioritisation of director independence. In either event, there is clearly room for improvement.

Actions to take next

- ▶ Stewardship activities should focus on a broader set of priorities, anticipating shifts within a changed business landscape.
- ▶ Investors should challenge themselves to identify opportunities where collaborative engagement is more likely to produce changes that meet the expectations of a post COVID-19 pandemic marketplace.
- ▶ Investors should demonstrate how their activities have led to sustainable benefits for the economy, the environment and society.
- ▶ Insurers should account for any actions taken in response to their monitoring of asset manager activities in a transparent manner.

Developing issues to consider

Collectively addressing climate change: Climate change remains the foremost priority of our time, even amid the ongoing impact of the COVID-19 crisis. In 2019, insurers faced US\$56 billion in global insured losses from natural catastrophe events, with secondary perils (often associated with climate change) accounting for more than 50% of losses. The 2020 Code requires signatories to address ESG directly and calls for collective action to amplify the effects. The scale of insurers' assets under management and their direct interest in the climate-related outcomes, makes them better placed to drive change than most actors.

Multiple strands of diversity: Whilst the 2020 Code expects signatories to address a spectrum of societal challenges, evidence suggests numerous diversity matters receive inadequate attention. 2020 has seen the matter of racial inequality come to the fore on an unprecedented scale. Investors should seize this opportunity to expand beyond their evidenced focus on gender diversity to address racial equality, fulfilling the promise of the Parker Review. They should also consider other, often overlooked, strands of diversity including age, mental health, neurodiversity and disabilities.

Open data: Increasingly, the sharing of data is being recognised as an invaluable enabler for collaborative innovation and developing solutions that have long eluded experts. This will be particularly advantageous both in addressing societal challenges (e.g., modelling to mitigate environmental threats) and in unlocking overwhelming sums of economic value. In the spirit of collective engagement, investors should identify and support opportunities where they and/or investee companies can use an open data approach to deliver on some of the bolder ambitions stewardship seeks to achieve.

COVID-19 fraud risk: Businesses are facing severe disruption, resulting in increased volumes of claims to insurers. Vigilance on fraud risk is therefore critical, as the crisis unfortunately represents an opportunity for criminals. Cyber crime, misappropriation and falsification require robust safeguards. Good stewardship requires proactivity around fraud detection and mitigation to protect insurers' own financial soundness as well as end beneficiaries' assets, and trust in business.

Beyond

Maximising the potential for stewardship in a renewed economy, driving long-term value generation across the investment chain and creating a more sustainable and stronger capital market for the future.

Context

Momentum is growing behind stewardship: the launch of the 2020 Code has driven a step-change in expectations, increasing responsibilities across the investment chain. A strong ask is already being made of investors, including insurers. In the months and years ahead, expectations are all but certain to increase even further.



A holistic approach

Alignment brings enhanced benefits: by bringing each of these elements together, investors can enable more sustainable, stronger capital markets, delivering long-term value across the whole of the investment chain, and maximising potential for the economy, the environment and society.

Stewardship exists within a broader ecosystem of allied initiatives, encompassing the policy undercurrents of ESG and the overarching behaviours of responsible investment. The EY team expect growing calls for greater alignment between these initiatives so as to maximise their impact and benefit. Stakeholders will demand a holistic approach that treats stewardship not as a silo, but as a deeply embedded part of an overall purposeful investment strategy, using each of its component elements and engaging all actors across the investment chain to accelerate outcomes for individual savers, policyholders, the economy, the environment and society at large.

A closer look

ESG is at the core of purposeful investment, representing many of the most pressing societal priorities such as climate change, human rights and corporate accountability. By incorporating ESG as its sixth principle for asset managers and asset owners, the 2020 Code has served to emphasise its importance: it is now difficult to think about stewardship without ESG as an embedded component.

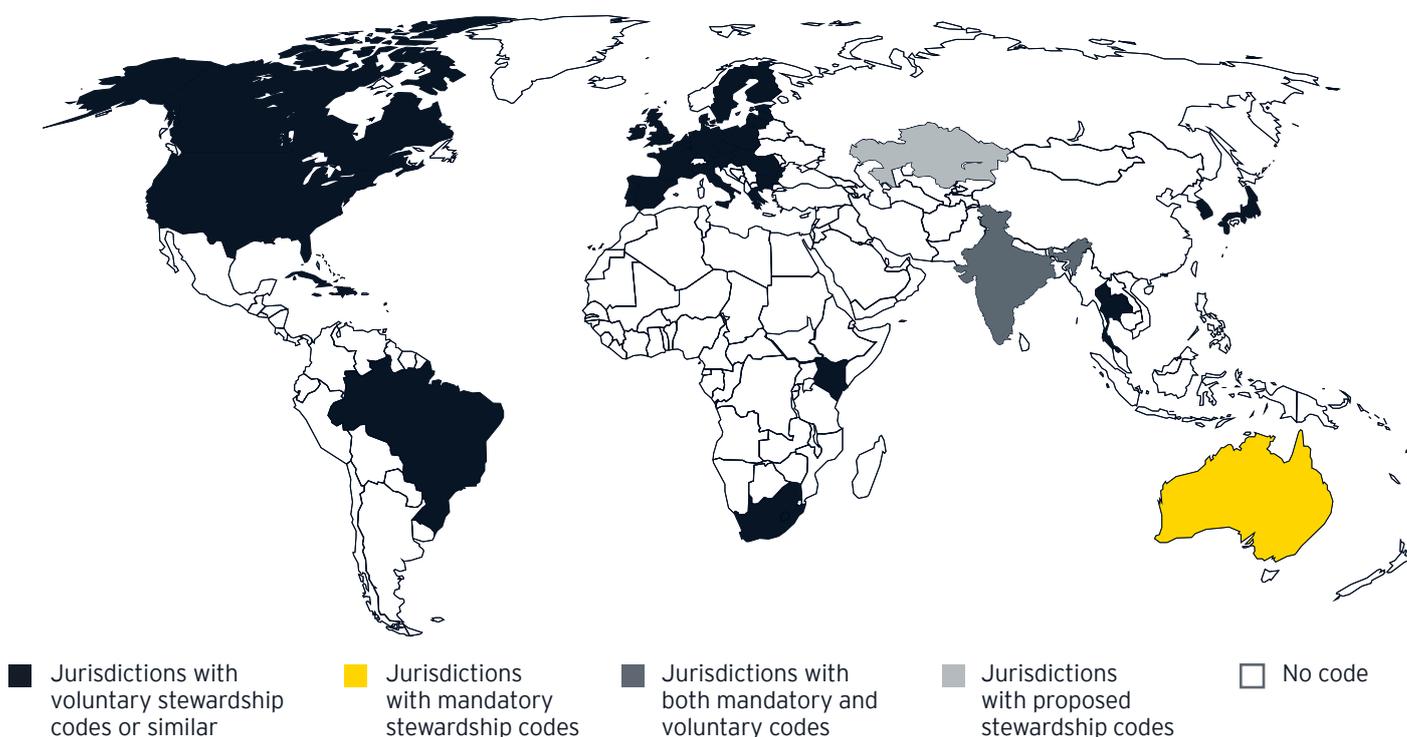
Just as ESG is integral to stewardship, so is stewardship an integral component of responsible investment – the overarching behaviour that drives investment decision-making and which seeks to embed purpose and sustainability into strategy and practice. Aligned initiatives aimed at fostering responsible investment are further raising expectations of investors. These include the UN's Principles for Responsible Investment (UN PRI) and the Taskforce for Climate Related Financial Disclosures (TCFD). We can expect increased interaction between these initiatives, as the purposeful investment ecosystem becomes more interconnected and intertwined.

Future implications of the 2020 Code

We expect that the 'ripples' of the 2020 UK Stewardship Code will be felt far and wide internationally.

previous iterations of the Stewardship Code encouraged international regulators to adopt their own codes, or adapt existing ones. As a result, there are now more than 20 stewardship codes in existence worldwide.

The 2020 Code is recognised as forward-thinking and will serve as a model for other stewardship code amendments and future stewardship codes elsewhere. Investors should therefore be mindful of its international context and proactively adopt its letter and spirit extraterritorially so as to safeguard their social licence to operate globally.



Looking beyond: applying stewardship to shape a more hopeful future

Meeting the challenges set out in the 2020 Code and being recognised as a signatory to its heightened principles, is a priority focus area of investors in the 'now'. They are seeking to demonstrate their purpose and social licence to operate in these difficult times before addressing the challenges, uncertainties and opportunities of the 'next'.

Looking 'beyond', reporting against the 2020 Code will not be seen as an end destination, but rather an important milestone on the journey to creating long-term value and unlocking economic and social potential. Investors should work to embed stewardship at the core of all investment activity so that it sits firmly integrated and aligned with other initiatives such as TCFD and UN PRI. This will provide confidence that asset owners and asset managers alike are prepared to meet the ever increasing expectations of the investment ecosystem.

5

Methodology

Background on this review

This second wave stewardship review of UK-based asset owner and asset manager stewardship priorities expands on our insights paper published in September 2019¹³. The focus of this paper is insurance asset owners and the asset managers most heavily engaged by the insurers in scope of our review. Its purpose was to develop a more comprehensive understanding of how these asset owners and asset managers are currently reporting and engaging on stewardship and to provide best practice insights on meeting the heightened stewardship expectations institutional investors face in these uncertain times.

Market engagement

Establishing and enacting best practice requires collaboration across the market. Therefore, in addition to assessing public stewardship reporting, we also conducted one-on-one meetings and engaged with several industry leaders, subject matter experts and regulators to develop our methodology and glean insights that helped shape our thinking. This research revealed eight investor priority areas and highlighted multiple opportunities to enhance stewardship reporting across them.

Areas of focus

Our assessment framework is based on eight broad areas of investor priority that are frequently referenced in investor surveys and interviews. The EY team further broke these into 25 sub-categories based on themes identified in stewardship reporting and/or raised in our discussions with subject matter experts.



¹³ Source: EY – ‘Turning the tide to greater corporate accountability’, 2019 ([LINK](#))

More on our methodology

Levels of priority

Our five-point stewardship priority scale measures the depth of investor stewardship activity in each of the 25 sub-categories. This is based on the importance of signalling clear stewardship policies to investee companies and reflects requirements under the 2020 Code, which emphasises transparency in how investors communicate on both engagement activities and outcomes.

Although our stewardship priority scale assigns scores of one to five for stewardship reporting, this is an ambitious scale based largely on future state best in class. We recognise the challenges investors sometimes face in ascribing outcomes to their engagement activity and that different approaches to long-term investing will lead to different stewardship priorities.

Measurement

The population of interest for this study was the 21 largest (by size of assets under management) UK insurance asset owners and the 18 asset managers who are most heavily engaged by these insurers. We applied our assessment framework and stewardship priority scale against publicly available material published by these 39 investors relating to their recent (2019) stewardship activities. This material included, but was not necessarily limited to; to, UK stewardship reports; ESG reports; statements of compliance with the 2020 Code; voting and



engagement reports; and Principles for Responsible Investments (PRI) statements. We supplemented our initial findings with primary research through interviews and discussions with institutional investors, however these were not a factor in our scoring.

Due to the long-term nature of life insurance business, the majority of asset owners in the scope of our review are life insurance firms. The asset managers in scope cover both internal and external asset managers. Assets include investments in overseas entities, demonstrating the global reach of UK stewardship activity.

Investor priority areas

Governance	Human capital	Strategy and performance	Audit and assurance
<p>Sub-categories</p> <p>Executive remuneration. Payments and benefits to an organisation's leadership.</p> <p>Leadership composition The range of attributes reflected through the members of a company's leaders (board and executive), including over boarding.</p> <p>Director independence The presence of directors not unduly influenced by a vested interest in the company.</p> <p>Risk oversight Supervision over a company's approach to risk management.</p> <p>Succession planning The identification and development of successors for key posts.</p>	<p>Sub-categories</p> <p>Diversity and inclusion. A focus on how a workplace encompasses, values and enables people of varying attributes.</p> <p>Culture and values The principles, behaviours and beliefs that shape an organisation's nature.</p> <p>Employee wellbeing Employee motivation and the quality, safety and support for growth in the workplace.</p> <p>Remuneration and reward Monetary and non-monetary benefits provided in exchange for performance.</p>	<p>Sub-categories</p> <p>Long-term planning Strategising on actions to accomplish an overall, non-immediate aim.</p> <p>Financial performance The pursuit of financial objectives as a measurement of overall financial health.</p> <p>Purpose An organisation's aspirational reason for existing.</p> <p>Data and technology innovation A focus on how the data and technology revolution can drive positive change.</p>	<p>Sub-categories</p> <p>Audit quality The critical attribute of external statutory audit that instils confidence in financial reporting.</p> <p>Auditor appointments A company's selection process and selection of external statutory auditors.</p> <p>Wider assurance Professional assurance for companies over matters that fall beyond the scope of the external statutory audit.</p>
Environment	Social impact	Corporate reporting	Trust and reputation
<p>Sub-categories</p> <p>Climate change Global warming and its destabilising effects on the planet.</p> <p>Sustainability The preservation of renewable resources and the quality of the natural environment as part of a broader sustainability agenda.</p>	<p>Sub-categories</p> <p>Societal contribution An activity that produces a positive impact on the public.</p> <p>Human rights Rights and freedoms recognised as belonging to all individuals.</p> <p>Supply chain The network relied upon for a commodity's creation and sale.</p>	<p>Sub-categories</p> <p>Reporting quality The key attribute in determining whether an investee company's reports are timely, relevant and reliable.</p> <p>Stakeholder reporting The breadth of areas and matters addressed in an investee company's reports.</p>	<p>Sub-categories</p> <p>Trust awareness The extent to which a company understands how it is perceived by its stakeholders.</p> <p>Management of trust Undertakings to enhance or defend how stakeholders perceive a company.</p>

Acknowledgements

Our population of interest for this study included 39 institutional investors, as listed below. Each of these investors has contributed to the evolving practice of stewardship reporting in the UK, and without them this study would not have been possible. The EY team offer each of them our warm thanks.

We extend additional gratitude and appreciation to the several amongst this list who, through interviews with us, offered us further insights on their approach to engagement and stewardship.

Our study also benefited immeasurably from the guidance, questioning, encouragement and contributions made to us by:

- ▶ Will Hutton, Co-chair, The Purposeful Company
- ▶ Andy Griffiths, Executive Director, The Investor Forum
- ▶ Paul Druckman, Chairman, World Benchmarking Alliance (WBA)

The EY team extend our deep thanks to each of them for helping to enable this study.

Aberdeen Standard Investments

Aegon UK

AIG Europe

Aviva Investors

Aviva UK

BlackRock

Canada Life

Canada Life AM

Columbia Threadneedle Investments

EdenTree IM

Invesco Perpetual

Janus Henderson

JP Morgan

JUST

Kames Capital

Legal and General

LGIM

Lloyd's of London

LV=

M&G

M&G IM

NFU Mutual

NFUM IS Ltd

OneFamily

Pension Insurance Corporation

Phoenix

ReAssure

RLAM

Robeco

Rothsay

Royal London

RSA

Santander

Schroder's

Scottish Widows

State Street

Utmost

Wesleyan

Zurich UK

Contacts

For more information, please speak to:



Gareth Mee

Partner, UK Insurance Head of Sustainable Finance
Ernst & Young LLP
gmee@uk.ey.com



Loree M. Gourley

Director
Regulatory and Public Policy
Ernst & Young LLP
lgourley@uk.ey.com



Niamh Murphy

Senior Manager
Risk and Actuarial Services
Ernst & Young LLP
nmurphy@uk.ey.com



Brandon Perlberg

Senior Manager
Regulatory and Public Policy
Ernst & Young LLP
bperlberg@uk.ey.com



Alisha Kelkar

Consultant
Risk and Actuarial Services
Ernst & Young LLP
alisha.kelkar@uk.ey.com



Namir Chowdhury

Consultant
Risk and Actuarial Services
Ernst & Young LLP
namir.chowdhury@uk.ey.com



About EY

EY is a global leader in assurance, tax, strategy, transaction and consulting services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2020 Ernst & Young LLP. Published in the UK.

All Rights Reserved.

ED None

EY-000124480.indd (UK) 09/20. Artwork by Creative Services Group London.



In line with EY's commitment to minimise its impact on the environment, this document has been printed on paper with a high recycled content.

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

ey.com/uk