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Exploring the Intersection of Sustainability and Health Insurance: Managing Risks and Opportunities

Sustainability is increasingly becoming a crucial consideration for corporations in today's society. Consumers now expect companies to have a positive impact on environmental, social, and governance (ESG) issues. Among all insurance companies, health insurers have the greatest potential to impact individuals' lives. Therefore, they have a responsibility to contribute positively to society. This article focuses on the Dutch health insurance market and the ESG risks and opportunities that health insurers in this market face. Understanding and identifying these ESG risks is critical to position insurers to leverage the related opportunities and strengthen their market presence and benefit policyholders as well as society at large.

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This article has been written in their personal capacity.

ESG RISKS AND OPPORTUNITIES FOR HEALTH INSURERS

Some may argue that due to the short-term nature of health insurance, ESG-related risks may not be a primary concern as they can be priced for each new year. However, prudent consideration of these risks is essential to maintain relevance in the market and fulfil the responsibility of health insurers to contribute to society. Some of the most important risks that health insurers may face include increased claims costs, investment risk, regulatory compliance risk, reputational risk and innovation stagnation risk. We will consider each of these in some detail.

INCREASED CLAIMS COSTS

An increase in claims costs could arise due to many factors. Heat, drought and flood-related events are also likely to cause an increase in chronic physical diseases such as cardiovascular, respiratory and gastrointestinal disorders (brought about by environmental determinants such as pollen, smoke and dust). We may therefore see a direct effect from an increasing disease burden due to increasing incidence of disease related to climate change. When considering mental health, an increasing number of climate change disasters could also lead to higher incidence of PTSD, adjustment disorder and depression (NCBI, 2015). While this picture is complex and the predicted effects of climate change on morbidity are still being understood, investment in understanding how disease burden is affected will allow insurers to better predict future claims, thus reserving and pricing more appropriately.

INVESTMENT RISK

Sustainable investing is another highly relevant topic in the ESG space. Companies failing to adjust their investment strategy to accommodate the increasingly socially conscious demands of consumers and regulators are likely to face consequences in years to come. From a purely financial perspective, investing in carbon-intensive industries such as fossil fuel companies is unlikely to be beneficial in the long-term. The International Corporate Social Responsibility (ICSR) Agreement, a 5-year agreement established in 2018, was built upon the Sustainable Investment Code (established in 2012) to tackle exactly this issue. One of the many learnings from this agreement was that companies which have negative impacts on people, animals and/or the environment present a higher risk and therefore do not represent a sensible long-term investment. The Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO) publishes an annual benchmark which compares the sustainability of investments held by companies. One of their benchmarks focuses specifically on Dutch insurers, and is used by health insurance comparison websites such as independer.nl to assist individuals in making sustainable decisions around which health insurer to join. It is in the interests of health insurers to place emphasis on sustainable investment choices, as individuals are increasingly making more sustainable choices. In a survey conducted by the Consumentenbond, two thirds of the 7,000 people interviewed said that they would be willing to pay a higher premium to belong to a more sustainable insurance provider.

Beyond the financial aspects, health insurers also have a social responsibility to benefit society. This means avoiding carbon-intensive investments, as well as striving to invest in more socially responsible companies which aim to minimise social issues such as gender inequality and child labour. Adopting investment strategies which account for this will ensure the long-term sustainability of insurers.

REPUTATIONAL RISK

Given the social role that health insurance plays in society, individuals increasingly expect insurers to consider ESG factors in their business model. Insurers who do not consider these factors appropriately may face perception from stakeholders that they are ‘out of touch’, therefore losing market share or negotiating power with providers. These considerations are especially important if part of their strategy involves selling products to younger generations, who are increasingly socially conscious and prefer to support sustainable businesses.

INNOVATION STAGNATION RISK

Related to reputational risk, innovation stagnation risk can be viewed as the risk that an insurer does not innovate to keep up with customer expectations and demands and therefore gets out-competed by others. ESG trends present opportunities for insurers to innovate in order to meet changing customer demands. Prevention and wellness trends also present potential avenues for product innovation. One such example of health innovation is an American company Truemed, which helps individuals use tax-free funds to pay for preventive healthcare services such as healthy eating, exercise, sauna and sleep aids. While the same tax structures do not exist in the Netherlands, this should not discourage health insurers from working with regulators to explore similar options for innovation.

Two major problems we see in European countries are increases in chronic disease prevalence, as well as ageing populations. From a societal perspective, interventions which reduce long-term healthcare costs have never been more relevant. Concepts like gamification have gained popularity in an attempt to increase the incentive to engage in healthy behaviour. Wellness apps and programmes have been developed in recent years in the Dutch market in an attempt to address this issue, but their adoption has yet to gain significant traction. Innovative product design allows insurers to differentiate themselves in the Dutch market where this is difficult to achieve.

REGULATORY COMPLIANCE

As part of the Solvency II framework, insurance companies must conduct an annual Own Risk and Solvency Assessment (ORSA). ORSA is a regulatory and risk management framework that involves a thorough evaluation of an insurer's risk profile, capital adequacy, and governance practices. This assessment considers the insurer's solvency requirements, taking into account the risks it faces and ensuring that the insurer holds sufficient capital to mitigate those risks. In the Netherlands, insurers that fall under Solvency II must prepare an ORSA report at least once a year and submit it to De Nederlandsche Bank (DNB). ORSA enables insurers to proactively identify and evaluate potential risks that could impact their financial stability and operational effectiveness, allowing them to effectively manage and mitigate these risks. This proactive approach reduces the likelihood of financial instability or disruption, enhancing long-term sustainability. DNB has reported that insurers are paying more attention to climate risks, with 80% of Dutch insurers considering this in the ORSA 2020 relative to only 50% in 2019. They also state that most improvements in ESG reporting can be made by small and medium sized insurers.

Compliance with ORSA regulations enhances stakeholder confidence in insurers' risk management practices. Demonstrating compliance and showcasing rigorous risk governance builds trust among policyholders,

health care providers and regulators, contributing to long-term sustainability. Non-compliance, however, exposes insurers to penalties, capital management challenges, and difficulties in attracting stakeholders. Embracing ORSA and meeting its requirements presents important opportunities for insurers, allowing them to strengthen risk management, optimize capital allocation, and gain a competitive advantage for sustainable success.

CONCLUSION

Health insurers have a significant role to play in contributing to society. While there are risks associated with ESG factors such as increased claims costs and investment risk, these risks should be carefully considered and managed to ensure the long-term sustainability of health insurers. Investing in socially responsible companies and adopting sustainable investment strategies enhances reputations and benefits society. Likewise, regulatory compliance through ORSA requirements enables insurers to proactively identify and manage potential risks, enhancing trust among stakeholders. By innovating to meet customer demands, for example by developing products that focus on prevention and wellness, health insurers can differentiate themselves and gain a competitive advantage. Ultimately, the adoption of ESG strategies will benefit not only insurers but also society. ■

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