NATIONAL
INSURANCE
COMMISSION

ESG Guidelines for the Insurance Industry in Ghana

National Insurance Commission
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Contents

1. Preliminary

These Guidelines have been issued by the National Insurance Commission (NIC) in exercising the powers granted to it under Sections 201 of the Insurance Act 2021, (Act 1061).

2. Applicability

These Guidelines are intended to support all stakeholders in the Ghanaian insurance industry, including insurers (life and non-life) and reinsurers. Unless stated otherwise, reference to insurers applies equally to reinsurers.

3. Preamble

The insurance industry plays a critical role in promoting sustainability and responsible investing, these Environmental, Social, and Governance (ESG) Guidelines aim to provide a framework for integrating ESG principles into the Industry's operations, underwriting, investment practices, and stakeholder engagement.

The ESG Guidelines support insurers to track important risks and sustainability criteria and thus align their businesses to a more holistic risk management that ensures long-term resilience, enables investors or shareholders to drive value through their investments, and allows business practices to better understand and enhance their impact.

For the purposes of these Guidelines, the NIC has set out the common factors inherent in the acronym 'ESG': ESG considerations include, but are not limited to, the following:

a) Environmental factors commonly include climate change, greenhouse gas emissions, air and water pollution, biodiversity, deforestation, energy efficiency, waste management, and water scarcity.

b) Social considerations commonly include customer satisfaction, data protection and privacy, gender and diversity, employee engagement, community relations, human rights and labour standards, and cybersecurity.

c) Governance considerations commonly include Board composition, audit committee structure, bribery and corruption, executive compensation, lobbying, political contributions, and whistleblowing.

4. Scope

These ESG Guidelines are primarily intended for insurers and reinsurers operating in Ghana, though it may also provide valuable insights for intermediaries and other stakeholders in the insurance industry. These Guidelines aim:

4.1. To guide insurance companies in managing their ESG-related risks by integrating ESG-related risk management into their business decisions and activities. The Guidelines provide insurers with a roadmap to integrate ESG-related risks in their decision-making frameworks.

4.2. To set out some basic requirements that insurers should consider adopting to effectively entrench ESG-related financial risks in their risk management frameworks.

5. Objectives of the Guidelines

The purpose of these Guidelines is to encourage insurers and reinsurers to:

a) Embed the consideration of the financial risks from ESG-related exposures in their governance arrangements and decision-making.
b) Incorporate the financial risks from ESG-related exposures into their existing financial risk management practice.
c) Develop an approach to enhanced transparency and disclosure of the financial risks from ESG-related exposures.

d) Engage with stakeholders, including clients and policymakers, to understand and manage ESG risks, promote transparency and fairness, and contribute to the development of sustainable insurance practice.

6. General Principles

6.1. Environmental Stewardship

Environmental factors encompass the impact an insurer's operations, decisions and activities have on the natural environment. Key considerations include:

6.1.1. Sustainable Underwriting: Evaluate the environmental impact of underwriting decisions
6.1.2. Climate change and resource use: assess and mitigate climate change risks, promote sustainable use of natural resources, and minimise pollution and waste.
6.1.3. Carbon Footprint Reduction: Commit to reducing operational carbon footprint through energy efficiency and sustainable practices.

6.2. Social Responsibility

Social factors to consider to address the impact an insurer's operations have on society, including employees, customers, and communities. Key considerations include:
6.2.1. Diversity and inclusion: Foster a diverse workforce and promote inclusion at all levels of the organization.
6.2.2. Community Engagement: Support local communities and social well-being through outreach programs, charitable contributions, and volunteer initiatives.

6.2.3. Customer welfare: Ensure fair treatment of customers by promoting transparency in policies and practices and addressing their concerns effectively.

6.2.4. Human rights and labour standards: Upholding human rights and ensuring fair labour practices throughout operations and the value chain.

6.2.5. Financial Inclusion: Develop products and services that promote financial inclusion and address the needs of underserved communities.

6.3. Governance Standards

Governance factors relate to the management and oversight of an insurer's business operations. Key considerations include:

6.3.1. Ethical Conduct and Compliance: Uphold the highest standards of integrity and ethical behaviour across all business practices and comply with all applicable laws and regulations.

6.3.2. Risk Management: Develop a robust risk management framework that includes ESG-related risks and opportunities.

6.3.3. Stakeholder Engagement: Maintain open lines of communication with stakeholders, providing regular updates on ESG performance and initiatives.

6.3.4. Corporate Governance Structures: Establishing clear and effective governance structures with well-defined roles and responsibilities.

6.3.5. Board Oversight: Ensuring active oversight of ESG issues by the board of directors.

6.4. Materiality

Insurers and reinsurers should conduct materiality assessments to identify and prioritise ESG factors that have the potential to materially impact their business, financial performance, and long-term sustainability. This involves assessing the significance of potential ESG issues and considering their potential impact on the company’s operations, stakeholders, and the environment. Stakeholder engagement is a crucial part of the materiality assessment process. By focusing on the most material ESG issues, insurers and reinsurers can ensure their efforts align with their strategic objectives and stakeholder expectations.

6.5. Responsible Investment

Insurers should consider ESG factors in their investment decisions and manage related risks and opportunities. This includes incorporating ESG criteria into investment analysis and portfolio construction, engaging with companies to promote sustainable practices, and considering impact investing. Insurers should also avoid or limit investments in harmful industries and be transparent about their responsible investment policies and practices.

7. Specific Principles

7.1. ESG Governance

7.1.1. An effective ESG governance structure is critical to ensuring that an institution properly assesses ESG-related risks and opportunities, makes appropriate strategic decisions about managing those risks and opportunities, and sets and reports on relevant goals and targets.

7.1.2. Insurers should have robust governance arrangements in place that enable them to effectively identify, manage, monitor and report the risks that they are, or might be, exposed to both on a business and industry level.

7.1.3. The Board has the primary responsibility to oversee effective management of ESG-related exposures of an insurer. To fulfil this responsibility, the Board should consider ESG-related risks when developing the institution's overall business strategy, business objectives and risk management framework and to exercise effective oversight on implementation.

7.1.4. The Insurer's Board and senior management should:

1. Assess and quantify the institution's exposure to ESG-related risks arising from various lines of business;
2. Oversee the development of an ESG strategy; and
3. Define and formally allocate roles and responsibilities, as appropriate, within the organisational structure for implementation of the institution's ESG-related risk management framework and in line with the entity's risk profile.

7.1.5. Senior management is responsible for:

1. Implementation of the institution's ESG strategy through regular updates and management information. The ESG risk strategy should be incorporated into the institution's risk management framework; and

2. Implementing strategies in a manner that limits ESG-related risks associated with each business strategy.

7.1.6. The insurer should have an effective ESG governance structure that ensures ESG risks and opportunities are properly assessed, strategic decisions are made, and relevant goals and targets are set.

7.1.7. The insurer should identify ESG risks and opportunities, evaluate their actual and potential impact, and assess their impact on strategies and plans.

7.1.8. The insurer’s Board should approve the ESG risk management framework and internal policies that assess and manage the insurer’s exposure to ESG risks.

7.1.9. The insurer should set clear roles and responsibilities within the company to ensure ESG oversight including providing training so that the insurer is adequately capacitated.

7.2. ESG Management System

7.2.1. Management should implement ESG Management Systems and provide the necessary resources and support for ESG integration within the company.

7.2.2. The systems and functions need to be adequate for the nature, scale, and complexity of the insurer’s ESG risks and opportunities.

7.2.3. With regard to the nature, scale, and complexity of the insurer’s business and risks, the Insurer should:

1. Develop strategies for dealing with specific ESG-related risks;

2. Develop policies defining the procedures and other requirements that will enable effective integration of ESG issues;

3. Set out processes for the implementation of the developed strategies and policies, and

4. Set out controls to ensure that such strategies, policies and processes are in place, are being observed and are attaining their intended objectives.

7.2.4. Insurers should develop a unique ESG governance policy framework which details roles, responsibilities and processes.

7.2.5. Insurers should integrate ESG issues into existing risk management frameworks, investment strategies and the overall corporate strategy.

7.2.6. At the minimum, insurers should show cross-linkages to the core risk framework of the organisation including the determination of ESG appetite.

7.3. ESG risk management

7.3.1. Insurers should assess the institution's level of ESG integration, including determining ESG related risks and opportunities on an annual basis.

7.3.2. The Insurer should engage the clients that pose a higher ESG risk and determine their ESG risk profile.

7.3.3. The Insurer should report all relevant risks to the Board and senior management to track and monitor ESG risk over time, as well as the Insurer's risk appetite to support ESG risk management.

7.3.4. The Insurer should ensure that the institution has clear responsibilities and resources to manage ESG risk that, at minimum, should undertake the following:

1. Prior to taking on new business, business line staff should assess the ESG risk posed, particularly for sectors exposed to higher ESG risk;

2. The risk management, monitoring, and screening function should monitor business line implementation of the insurer's ESG management policies, as well as challenges and opportunities;

3. The compliance function should ensure that applicable rules and regulations are being followed; and

4. The internal audit function, as part of its independent review, should consider the robustness of the Insurer's risk management framework in managing ESG risk.

7.4. Stress Testing and Scenario Analysis

7.4.1. The Insurer should develop internal capabilities to conduct scenario analyses and stress-testing on ESG-related issues.

7.4.2. The Insurer's scenario analyses and stress-testing should at minimum, include the following:

1. Scenarios for the short-term and long-term, coupled with conservative and regularly reviewed assumptions for ESG scenarios;

2. The analyses should include physical and transitional risks across a range of ESG scenarios;

3. Scenarios should include forward-looking data and information and not rely only on historical data given the unpredictability of climate-related impacts and the rapid pace of change.

7.5. The insurer should submit to the NIC the stress testing and scenario analysis outcomes on an annual basis.

8. Reporting and Disclosure

8.1. The Insurer should disclose its approach to managing ESG risk in a way that is clear and useful to stakeholders on an annual basis.

8.2. The Insurer should disclose ESG issues in accordance with best practice international reporting frameworks and Ghanaian-specific Guidelines. For example, more detailed Guidelines are available from global sources such as the GRI, IFRS S1 and S2 and the supporting detailed SASB metrics for the insurance sector or reviewing the ESG Disclosures Guidelines Manual from the Ghana Stock Exchange.

8.3. The insurer should conduct and disclose a materiality assessment to identify and prioritise ESG issues relevant to stakeholders and the organization's operations.

8.4. The Insurer should establish a process for regularly reviewing and updating reporting practices based on feedback from stakeholders and evolving best practices.

8.5. The Insurer should at minimum, ensure that the report addresses the following issues:

8.5.1. Environmental impact

1. Carbon emissions: Report on Scope 1, 2 and material Scope 3 greenhouse gas (GHG) emissions, including targets for reduction;
2. Resource use: Disclose water usage, waste generation, and energy consumption metrics; and
3. Biodiversity impact: Provide information on efforts to protect biodiversity and natural habitats.

8.5.2. Governance practices

1. Board oversight: Detail the roles and responsibilities of the Board in overseeing ESG issues, including the establishment of an ESG committee;
2. Risk management: Outline how ESG risks are integrated into the overall risk management framework; and

3. Compliance and ethics: Report on policies related to ethical conduct, compliance with regulations, and anti-corruption measures.

8.5.3. Social practices

1. Diversity and inclusion: Disclose diversity metrics within the workforce and management, along with initiatives to promote inclusion.
2. Employee welfare: Report on employee engagement, turnover rates, and programmes for training and development.
3. Stakeholder engagement: Detail community engagement initiatives and the impact on local communities.
4. Product responsibility: Report on product quality measures, including customer satisfaction metrics and complaint resolution processes.