



ESG STANDARDS AND THE NEW CHALLENGES FOR SECURITY AND SUSTAINABILITY IN INSURANCE

Assoc. Prof. Galina Stoyanova, PhD
Burgas Free University

Abstract: *The global economic environment and its complex interrelationships influence the public expectations from insurance and the prospects for the implementation of insurance activity by insurance companies in the conditions of a regulated insurance market. The specific features in the management of the insurance processes and operations in the insurance aggregates in the conditions of the dynamic and multifaceted manifestation of the insurance risks in the individual insurance products and the sustainability visions, comprehensively determine the ESG standards, as challenges and an influencing factor with increasing relevance and significance for safe and sustainable development of insurance. Insurers emphasize the transparent professional consulting and optimization of the insurance activity, which are in accordance with the changes in the legislation, by declaring the adverse effects of the decisions taken and implemented on the sustainability factors. The challenges of ESG standards are accepted as an opportunity and motivation to undertake specific activities and activities that actually ensure the sustainability of the insurance business and unconditionally require significant efforts and resources. The ESG framework provides a comprehensive overview of the impact of insurance companies on society and the environment.*

Keywords: *insurance, ESG, ESG standards, ESD risks, management, consultants, environmental compliance*

The abbreviation ESG (Environment, Social and Governance) or environmental, social and governance indicators in a general way determines the sustainability of an insurance company and its potential to achieve social goals, in addition to achieving financial results by types of insurance and in general for the insurance company. Emphasis is placed on monitoring the interrelationships between the influence and impact of the insurance business on the environment and the large scale of participants and interested persons - employees of insurance companies, insurance intermediaries, insurers by type of insurance, banks, pension - insurance companies, the National Insurance Agency, NHIF, the public and others. This is also one of the main reasons to increase the importance of indicators that are defined as non-financial. The director and leading consultant on sustainability and climate issues at Deloitte Lidia Neuhuber states: "The topic of sustainability is no longer only for external reporting, but for active integration into the relevant control processes in the company. The financial and non-financial worlds will continue to grow together." [1].

The ability to continuously adapt to market changes is set to be a core competency of insurance in the future. The complex nature of its implementation requires structural changes and consistent adjustment of the organizational model and business processes in insurance companies, prerequisites for a sustainable and competitive approach to their development.

The main goal of the present presentation is to determine some sustainability trends and their impact on insurance against the background of a study of the new legislative actions by the European Union.

The tasks that the author sets are three:

- ◆ ESG standards - knowledge and their application in insurance;
- ◆ Research of the impact of Directive / EU / 2022/2464 of December 14, 2022, known as the CSRD Directive (from the English Corporate Sustainability Reporting Directive) on insurance companies in Bulgaria and their participation in the staged model of preparation and implementation of its main guidelines;
- ◆ Study of the good practices of the Bulgarian insurance market.

The object of the present research is insurance in its two main parts - life insurance and general insurance, and the subject of research is aimed at the practical application of ESG criteria in the management practices of insurance companies. For the purpose of the research and the resulting tasks, information was collected, analyzed and summarized about the ESG strategies of insurance companies, the difficulties in their implementation and potential opportunities. Some problems are identified and guidelines are given to solve them. The emphasis is on business processes and insurance products, as well as on the results of insurers with the active participation of human resources. Through the techniques of juxtaposition, comparison and critical thinking, the obtained information is summarized in this report. International and European normative documents, scientific publications, articles, reports, materials from conferences, overview sources, articles from electronic publications were used in the development of the research.

Main theses of the research:

- ✓ Customer satisfaction of insurers by type of insurance with the coming changes influenced by ESG corresponds to the policy provided with transparency and long-term ambition of insurers to redirect capital flows to a more sustainable economy;
- ✓ The Insurer's risk management and the insurance risks by types of insurance expects a phased and balanced integration of sustainability;
- ✓ Regulatory changes related to sustainable development and financing, fundamentally and before any mandatory introductions and applications, must take into account the impact on businesses and consumers of insurance protection.

The need for regulation of the insurance activity on the one hand and, on the other hand, the insurance activity linked to ESG, is based on many reasons, some of the most important of which are:

- Insurers accumulate and manage a large volume of funds of individuals and legal entities and violations of public trust are possible;
- Insurance "crosses bridges" by creating and serving diverse interests (pension, inheritance, tax, investment and others) that are in correspondence with the insurance interest.
- An insurance contract is a complex agreement. It is started, maintained and terminated at costs that are not fully known at the time of determining the insurance premium. It is possible that it will turn out to be too low or high under certain circumstances.
- Sustainable finance is set to shape the actions of regulators, supervisors and financial institutions in the coming years. The effects of the growing role of sustainable finance in insurance can be monitored, managed, reported and analyzed within a regulatory framework that, on the one hand, leads to the development of the

individual insurance company and, on the other hand, supports the sustainability of partners, insurers, legal and natural persons, reinsurers.

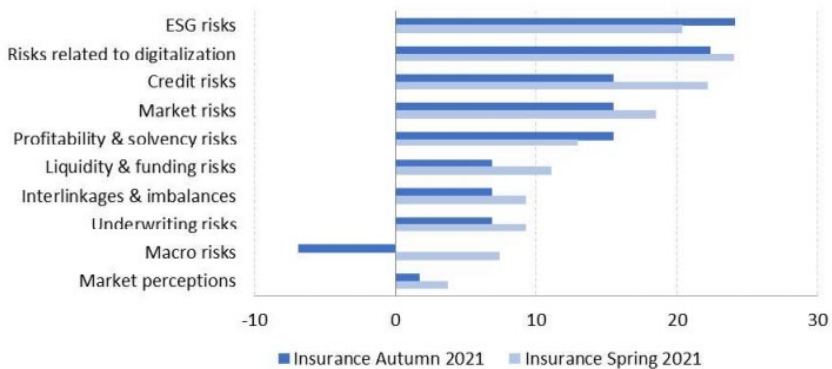
Insurance companies are currently solving the problems of modernization and include in their policies the concept of sustainable finance. In the implementation of business processes in insurance, the goals of insurers are generally threefold:

- ✓ Directing cash flows to sustainable investments;
- ✓ Changes with improvements in ESG financial risk assessments and management, as part of the concept of sustainable finance;
- ✓ Promoting transparency and a long-term approach to financial and economic activities.

The impact of the implementation of these three main objectives in insurance is mainly on risk management, investment decision-making and the content and technological mode of business processes.

As a result, today it is inevitable that insurers endorse the introduction of ESG risks as part of the concept of sustainable finance. The importance of ESG risks to the activities of insurers can be seen from the data in figure one, based on a survey of national supervisors in the European Union.

Figure one presents the expectations for the largest change in the impact of risks on materiality in the insurance sector for twelve months ahead. Of the ten groups of risks with the greatest change in impact are ESG risks, followed by digitalization risks. With a diminishing influence in expectations are the macros.



Source: EIOPA, Financial Stability Report, December 2021, p. 59

Fig.1. Risks with the largest expected increase in materiality over the next 12 months for the insurance sector [2]

The data in the EIOPA report on financial stability published on June 22, 2023. [4] show, as a result of high inflation, the reduced profitability of insurers in the EEA in 2022, which is partially compensated by increased insurance premiums. High inflation is a challenge to insurance profitability mainly due to higher costs of benefits and insurance payments and administrative costs.

6th International Conference on ICGSM
“ESG Standards and Securing Strategic Industries”

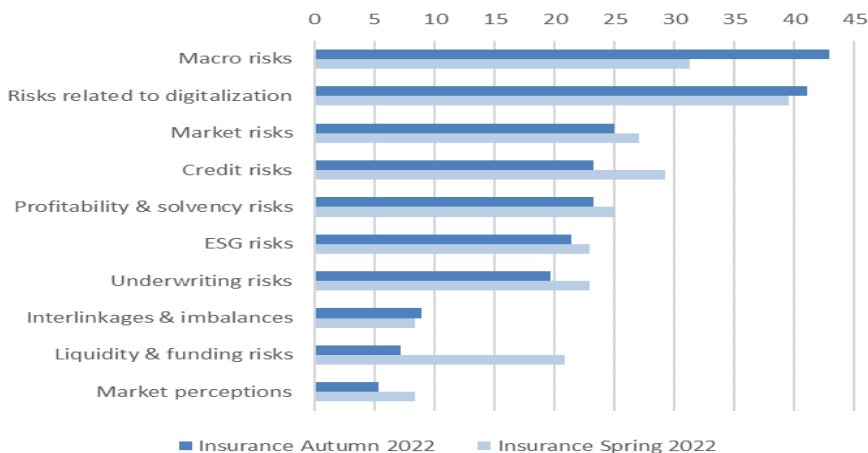


Fig. 2 Risks with the greatest expected increase in materiality over the next 12 months for the insurance sector [3]

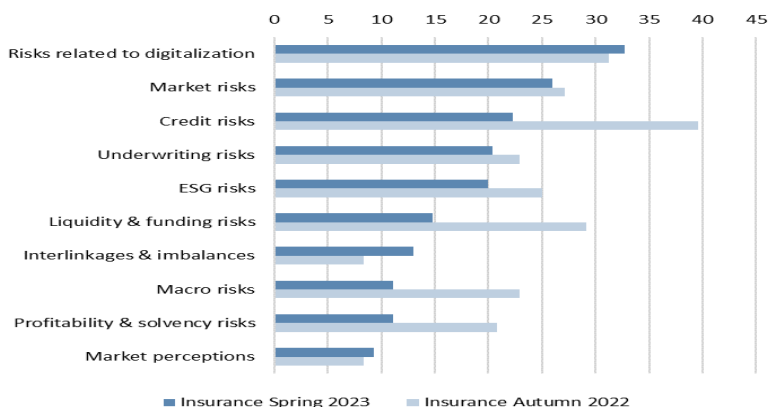


Fig.3 Risks with the highest expected increase in their materiality over the next 12 months for the insurance sector.

Source: EIOPA Insurance Bottom Up Surveys Spring 2023 and Autumn 2022, p.57 ; Financial Stability report, June 2023, EIOPA- BoS-23/209, 22 June 2023[4]

Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 establishing a framework to facilitate sustainable investment defined the framework for sustainable investment and established a single classification system (‘taxonomy’) for what can be considered an ecologically sustainable economic activity if certain criteria are met. An economic activity according to these criteria must fulfill more than one environmental objective if possible and not cause significant harm to any other.

Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on disclosure of sustainable investments and sustainability risks and amending Directive (EU) 2016/2341 supplements and further develops the



requirements for disclosure of information from institutional investors on how they have integrated ESG risks into business processes.

Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 on low carbon performance indicators and positive carbon impact performance indicators defined indicators with which investors can compare the carbon footprint of their investments.

In January 2023, Directive / EU/ 2022/2464 of December 14, 2022 entered into force. In relation to corporate sustainability reporting, known as the GSRD Directive. All information will be audited and digitally tagged in order to be included in the European single data access system.

The requirement for certain companies to publish a sustainability report includes disclosure of financial and ESG data. The external audit requirement for ESG reports has been introduced. Mandatory ESG standards with more detailed reporting requirements are also being introduced.

The CSRD Directive foresees a phased approach to companies [5] that have to report under the new rules.

➤ The first stage is for all companies that currently fall within the scope of the NFRD (Non-Financial Reporting Directive). They will have to prepare reports from the financial year 2024.

➤ The second stage is for large companies. They will prepare reports from the financial year 2025, publishing their first report under the new rules in 2026. These are companies that cover at least two of the three stipulated criteria:

- Total balance amount: 20 million euros;

□ - Net turnover: 40 million euros;

- Average number of employees during the financial year 250.

➤ The third stage is for small and medium-sized enterprises whose shares are traded on regulated exchanges and are not micro-enterprises, as well as small and uncomplicated institutions (credit institutions) according to Regulation /EU/ No. 575/2013. They will prepare reports from the financial year 2026.

The new Directive obliges reporting also for companies that are not registered in a Member State, but generate more than 150 million euros of turnover in the EU and have a related company or branch registered on the territory of the Union that meets the criteria for a large enterprise.

The latest changes in 2023 affect accounting and auditing. The expectation is that the new common standards will bring a unified approach to reporting and reporting in relation to sustainability and non-financial information, being commensurate with financial standards. According to Steward Brown, a member of the Kreston Global ESG Committee [6] historically, the main challenge for ESG reporting has been the lack of consistent, agreed-upon standards. Among other challenges, this leads to the problem known as “greenwashing”, where companies misrepresent their ESG credentials to appear more environmentally and socially responsible.

Investors and companies are increasingly focusing on ESG issues as they recognize the important role these factors play in a company’s long-term success [7]. The development of global ratings and standards increasingly successfully achieve the evaluation of companies in relation to the environment, people and communities.

The European Union gives way to sustainable finance [8]. In this regard, the EU has successfully introduced three main regulations:

✓ Climate Indicators Regulation (EU 2019/2089) to improve the transparency and comparability of methodologies related to environmental, social and corporate governance (ESG) indicators.

✓ Sustainable Finance Disclosure Regulation (EU 2019/2088) to redirect capital flows towards sustainable investments by increasing transparency on the part of financial market participants and advisers on sustainability risks, while ensuring a more uniform protection of end investors .

✓ The Taxonomy Regulation (EU 2020/852), which establishes a harmonized taxonomy for classifying financial products as sustainable at EU level, further encouraging investment in sustainable activities while addressing concerns about ‘greenwashing’.

An essential question in insurance today is what constitutes sustainability risk and can it affect the value of investments and their management. This is the risk that investment returns may be adversely affected by environmental, social or governance events or trends. „Environmental risk” refers to the risk that investment returns may be adversely affected by environmental events or conditions, including factors resulting from climate change and other environmental degradation.”Social risk” refers to the risk that investment returns may be adversely affected by social events or conditions. „Management risk” refers to the risk that investment returns may be adversely affected by events or conditions arising from incompetent or otherwise inadequate corporate governance.

The nature of these risks is determined by the type of insurance – general insurance and life insurance and varies on a time scale [9]:

➤ In the short term, sustainability risk depends on a specific event that can affect returns only when it occurs.Examples of such events include an accident (resulting in litigation, for example, for environmental damages); lawsuits and sanctions (for example, for non-compliance with social legislation); scandals (for example, when a company receives bad publicity because human rights are not respected throughout its supply chain or because the company’s products do not meet the environmental, social and governance (ESG) standards it promises). This kind of sustainability risks are considered to be higher when the issuer is somehow less strict in applying ESG standards.

➤ In the long term, sustainability risk refers to risks that may develop over an extended period of time, such as: impacts on business activities that may be under pressure due to climate change (e.g. automotive parts and linkage of the problems with the liquidation of damages in car insurance); changing customer preferences for products (for example, increased preference for more sustainable products and targeting Life insurance linked to investment funds that are designated as sustainable);recruitment difficulties; rising costs (for example, insurance companies facing claims due to changing weather conditions). As this risk develops over the long term, companies can take steps to mitigate it. Such steps to reduce sustainability risk are making appropriate changes in product offerings, improving insurance product distribution channels and insurance service supply chains, and others.

Insurance – technical reserves, free cash and others are invested in insurance companies. In managing their investment policy by continuously evaluating the underlying investments, insurers can take sustainability risks into account and by introducing an exclusion policy. It can be applied to all funds and discretionary mandates. Responsible investment funds (RIFs) may also be subject to additional responsible investment criteria.

For Bulgarian insurance companies, the subject of investments is of great importance. As of 31.12.2022, 10 life insurance companies [10] and 23 non-life insurance companies [11] submitted a report to the Financial Supervision Commission. The insurance sums under the current life insurance contracts are BGN



32,585,690,636, while under the newly concluded contracts from 01.01.2022. until 31.2.2022 the insurance amounts are BGN 7,563,450,976. The gross premium income as of 31.12.2023. in life insurance it is BGN 625,390,340, and in general insurance it is BGN 2,987,660,371.

The data present information about the enormous responsibilities of the insurers under the concluded insurance contracts. They also prove the trust in the insurance of the insurers by types of insurance, who, contributing funds for their insurances, participate in the creation, development and management of the insurance fund. Its important goal is to form funds for adequate and timely insurance protection, in accordance with the general insurance conditions by type of insurance and to store and manage them in the most correct way for the conduct of the insurance activity.

This explains the constant assessment of ESG risk through a number of ESG-related indicators that insurance companies present to their potential investment partners. These range from businesses' carbon dioxide emissions to respecting basic labor rights in their supply chains. ESG risk ratings are a key part of valuation work. In the pre-contractual information to the insurance products related to investments and investment funds, the insurers indicate the links with the sustainability risk.

The main adverse impacts for insurers stem from their responsibility to achieve a long-term return on investment for their clients that reflects their sustainability decisions. This means that insurance companies make investment decisions on behalf of their clients based on an investment policy that takes into account sustainability risks and social, ethical and environmental standards.

The main adverse impacts (ADI) on sustainability are largely hedged through the exclusionary policy in place. A number of activities are excluded from all actively managed investment funds (other than Responsible Investment Funds). Examples of exceptions may include companies involved in the production of controversial weapons, thermal coal or the production of tobacco products; companies involved in human rights violations and others.

Some insurers, such as KBC AM, do not invest in financial instruments linked to livestock and food prices; companies involved in gambling, adult entertainment, palm oil, and leather and exotic skins; companies located in countries that promote unfair tax practices.

The example of UBB Asset Management [12] for directing monetary resources in investing against the shortage of drinking water is a good one. Of the world's surface, 70% consists of water, but only 1% is drinking water. This water is also unevenly distributed. The lack of water is caused by:

- * Deforestation and urbanization are destroying ecosystems that are critical to groundwater recharge and increasing the potential for flooding, while global warming and overuse are depleting the world's water reserves;

- * Pollution damages natural water sources, as globally only 20% of wastewater is treated and recycled;

- * Outdated and unnecessarily leaking infrastructures waste drinking water;

- *The growing population of the Earth.

The insurance interest is evident in each of the mentioned influencing factors for the shortage of drinking water. Targeted support with investments from insurance companies can minimize the negative development and deepening of the problem. The solution is in environmental insurance, index insurance, life insurance linked to investment funds and others.

The *social taxonomy* defines and enforces the requirement to have and respect people's labor rights for decent work, safe services and products, healthy food,

inclusive communities. The taxonomy of the environment requires reducing the pressure on it, and in this sense the criteria related to social and corporate governance, such as human rights, fair working conditions and business ethics, are essential.

There are various initiatives, campaigns and product changes that show the impact of regulations and standards and the integration of ESG risks in the responsibility towards the sustainable practices of insurance companies in Bulgaria:

1/ Sustainable financing for corporate clients;

It includes advising corporate clients in their pursuit of environmental protection through sustainable investments. Offering flexible terms and expertise in financing sustainable projects.

2/ Corporate and social responsibility;

Developing and following a social responsibility policy, which is a pledge for clear and transparent relationships in all spheres of business and public life.

It includes advising corporate clients in their pursuit of environmental protection through sustainable investments. Offering flexible terms and expertise in financing sustainable projects.

3/ „Choose to help” platform;

A platform created back in 2009. , which gathers in one place current socially significant causes from various fields – health care, insurance, the social sphere, culture, education, and environmental protection.

4/ „Your green footprint” program;

A program created as part of the policy in the field of environmental, social and corporate governance (ESG) and includes a number of initiatives for a good future for Bulgaria.

5/ Eco initiatives for employees and insurance intermediaries;

Generating ideas by sharing good practices that employees and insurance brokers apply in their daily lives and can adapt in the corporate environment, such as the „Green Idea Suits You” initiative.

6/ Increasing the financial literacy of children and young people;

From 2017 until now, the program has been part of the socially responsible policy and has helped to improve the financial culture of thousands of Bulgarian schoolchildren and students.

7/ Advertising materials made of recycled paper;

8/ Insurance company „X” – employer – active participant in reducing youth unemployment;

9/ Initiatives in support of the banking union Net Zero Alliance, as partners of the banks.

Eight leading global insurance and reinsurance companies have established the Net-Zero Insurance Alliance (NZIA) [12] as founding members, committing to transition their insurance and reinsurance portfolios to zero greenhouse gas (GHG) emissions by 2050. In this way, insurers contribute to achieving the goals of the Paris Climate Agreement. All eight NZIA founding members are part of the UN-convened Net-Zero Asset Owner Alliance (NZAOA), established in 2019, where they are now individually setting science-based decarbonisation targets by 2025, for their respective investment portfolios respectively with a transition to zero emissions. The UN has announced a „Race to Zero” campaign representing over \$88 trillion in assets to work together to accelerate the transition of the financial sector and the global economy to net zero emissions. Insurance and reinsurance companies are for zero greenhouse gas (GHG) emissions by 2050, subject to a maximum temperature rise of 1.5°C above pre-industrial levels by 2100.



Each company decides how it will achieve this goal. According to Thomas Buberl, CEO of AXA Group, which chairs NZIA: „With this new Net-Zero insurance alliance, we are further raising our climate ambition by leveraging our underwriting, claims and risk management practices, to ensure and empower the transition to a sustainable, zero-emissions global economy.” And more: “For years, the insurance industry has served as society’s early warning system and risk manager by understanding, reducing, pricing and bearing risk. As COP26 approaches in Glasgow, the risks posed by global warming are escalating and the world is a long way from fulfilling the promises made during the Paris Climate Agreement, concluded nearly six years ago,” said Inger Andersen, Executive Director of the Environment Programme. United Nations Environment (UNEP). “Together with governments, the insurance industry and the wider financial sector have the power and responsibility to drive progress towards a net zero economy and a sustainable future for all. Driven by science, I am delighted that leading insurers are embedding the ambition of zero emissions into their core insurance business. I urge the rest of the global insurance industry to respond to the climate emergency and urgently follow the example set by the founding members of this pioneering alliance.”

The key components of the Corporate Net-Zero Standard [12] require companies to set long-term science-based targets to reduce all possible emissions before 2050. A company is considered to have reached net zero only when it has achieved its long-term science-based target and is neutralized all residual emissions.

The Net-Zero Standard [12] gives companies a clear blueprint for how to align their net-zero plans with science, which is not up for debate in this crucial decade for climate action. Because our time is running out. These are the words of Johan Rockström, Director of the Potsdam Institute for Climate Impact Research (PIK) and Professor of Earth System Science at the University of Potsdam.

10/ Long-term life insurance of a savings nature, which combines the opportunity to save and the security of carrying insurance protection for the insured person. The essential thing is that it is an insurance tailored to the individual standard of living, health status and the specific established needs of insurance protection and financial planning of the insurer. It provides support in situations where additional funds may be needed for care, and at the same time it is an option for panning „non-accident” future expenses for the insured, his family and relatives. The advantages are also: protection of funds from the influence of inflation; possibility of additional profitability above the agreed insurance sum; freedom in the choice of beneficiaries when insurance risks occur and when the insurance policy expires; right to use tax benefits according to the current legislation; payment of an insured amount in the event of an insured event covered by the insurance during the insurance period; non-sequestrability of the insurance policy; flexible options for ongoing expansion of insurance protection and others.

11/ By enforcing ESG standards in insurance companies, insurers participate in voluntary initiatives to support digital literacy and social inclusion.

12/ IFRS 17 Insurance Contracts is a new accounting standard that applies to insurance contracts. The standard regulates a revolutionary and long-awaited change in the insurance accounting model and risk-based optimization of insurance portfolios and their reporting [13]. It removes the difficulty in comparing different insurance companies, due to the different accounting models and methods of accounting for insurance contracts until now. Insurance contracts have specific characteristics that must be considered when accounting for them. They simultaneously define insurance conditions and are a financial instrument with specific monetary parameters, united in

a contractual agreement for an insurance service. Some insurance contracts generate cash flows that have a life cycle of a long period of time.

According to IFRS 17 *Insurance Contracts*, its summary provides useful information about these functions, namely:

-□ Accounting of profit during the period during which the services are provided under the contract;

- Presentation of the results of insurance services (including presentation of insurance income) separately from the income or expenses of insurance financing;

- Requiring an entity to make an accounting policy election whether to recognize all insurance financing income or expense in profit or loss or to recognize a portion of that income or expense in other comprehensive income.

13/ Creating a „Sustainability Manifesto” [14];

The main guidelines are for the Insurer to be an example as a company and as an employer, to adapt its business so as to stimulate responsible and sustainable consumption and to place its professional expertise for the benefit of society beyond its own business.

14/ PB Personal Finance of Post Bank (Eurobank Bulgaria AD) stimulates sustainable consumption in partnership with companies such as Ardes.bg and iStyle [14]. Circular consumption and financial inclusion are key, and various sustainable circular business concepts are being tested with partners such as Ardes and iStyle with options for buy-back or pre-partial payment so that the credit is smaller. The borrower or the property subject to credit are insured and the relationship with a selected insurance company participates in the circular rhythm. As part of the partnership with Ardes, people can bring in an old laptop for a trade-in, and its appraised value from a specialist can be used as a down payment towards a new device in installments. Thus, access to financing under reduced conditions is given to young people who are just starting to build their credit history. The returned laptop is refurbished and put on the used goods market, which is a contribution to the development of the circular economy.

The iStyle initiative also supports the circular economy. When purchasing a new product, the customer receives a price at which it can be redeemed when a new model is released. Thus, if he wishes to own the current device, he will only have to pay the difference between the agreed price and the price of the new model.

15/ DZI EAD and BNP Paribas Personal Finance yes 01.06.2023. / now BP Personal Finance, are exclusive partners of Junior Achievement’s „Practical Finance” program. They support this program by mentoring, volunteering and developing content, sharing different case studies and examples. Thousands of Bulgarian high school students have already passed the program.

16/Another event in the series is the game „Climate Fresco”, which partners, suppliers and employees of BNP Paribas Personal Finance in Bulgaria played together. Climatic Fresco is a board game created by Cedric Ringenback in 2015 in France. It aims to give a full understanding of the phenomenon of climate change through a collective effort of reflection. Climate Fresco is played with 42 cards, each representing a climate change factor. Thanks to it, the participants go through a fascinating process that helps them discover the connection between the causes and consequences related to climate change and look for possible solutions to get out of the crisis.

17/ Structuring combinations of insurances to protect the construction and operation of assets for the production of renewable energy. The insurance covers the risks against fire, natural disasters, floods, VIK accidents, earthquake, loss of income,



liabilities, short circuit and/or electric shock, accident of small damages with repairs within the day without administration of claimed damages to the insurers [15]. Specific special insurance coverages to cover liability for damages caused to third parties during the operation of the insured sites for the production of renewable energy. Insurance solutions for the employer's liability for damages suffered by his worker and/or employee as a result of an occupational accident during work. Highly efficient and individual insurance solutions loss of income until interruption of the activity of the insured sites for the production of renewable energy.

Insurance intermediaries are gradually becoming ESG consultants. They also purposefully take into account the ESG preferences of their clients, advising them on how to invest in sustainable businesses. Insurers, banks and investment firms gain the status of intermediate regulator to ensure that businesses deliver on the Green Deal.

The interest in ESG investments [16] has been influenced by the strong regulatory pressure and the relationship of ESG to business growth. The European Commission obliges large companies to disclose additional information about their activities (e.g. the carbon footprint of their activities) and encourages large institutional investors to actively engage in analyzing the activities of companies and provide funding to those that demonstrate responsible ESG behavior. A better understanding of ESG will come with regulations and with the rise of Generation Z and Alpha consumers [12][16]. This path was taken a few years ago with regulations to protect digital anonymity.

The introduction of ESG regulations at the European level and their transposition in the country is a natural process [17]. Just five years ago, we did not think about this topic at all, especially in Bulgaria. Today we hold conferences, conduct interviews and surveys. This means that the topic is already „hot“ and we are pressed by what can be done and what should not be postponed.

Business leaders are cautiously optimistic about strong economic growth, with 58% of top executives predicting that global economic growth will improve [18]. The annual global survey by PricewaterhouseCooper (PwC) and in particular the „PwC CEO Survey“ presented 68% of Bulgarian company managers expect revenue growth, but only 45% predict profitability growth. Worldwide, the results are 74% and 65%. Their top 3 plans for promoting growth in Bulgaria are:

- search for operational efficiency 76%;
- organic growth 65%;
- launch of a new product or service on the market 51%.

The pandemic and health crises 58%, the availability of key skills 51% and cyber threats 47% are the main concerns of Bulgarian business leaders. For the first time, the spread of disinformation is included in the top 10 threats to growth, 32%. It is encouraging that the level of concern about climate change for Bulgarian business leaders is increasing – from 10% in 2020 to 35% in 2021. Over 51% of Bulgarian business leaders say they will invest in digital transformation, and 29% plan investments related to cyber security and data privacy. In 2020, 46% of the Bulgarian participants in the survey have kept the number of employees, and only 24% have reduced it, and to increase the number of staff in the next 12 months, 40% of them plan, and in the next three years – 59%.

Challenges are outlined that await the generation of solutions. Some of the challenges are legal and administrative, while others are purely financial. The lack of a comprehensive strategy at the state level for the development of sustainable finance and a long-term approach to ESG disclosure is a significant problem that determines the main perception of exploiting opportunities through ESG, and not as an imposed administrative measure of an imperative nature. Insurance companies and their

managers should receive and participate in analyzes of the benefits of developing various aspects of sustainable finance. The development and introduction of a mechanism for permanent cooperation between individual financial institutions related to ESG implementation will help increase people’s confidence in their capacity as creators and consumers of products and services.

A fair opportunity for preferential tax relief in a financial year for users of insurance protection and for insurance companies can have a tangible effect. In the adopted report of the Chairman of the European Economic and Social Committee Christa SCHWENG dated 08.12.2021.[19] has emphasized the importance of appropriate incentives to achieve environmental and social goals. The preferential tax treatment of debt / equity in corporate taxation is particularly emphasized in it. An over-reliance on debt financing may prevent the achievement of the European Commission’s objectives, as companies become financially vulnerable and this will have a negative impact on the ability to undertake new and risky green investment projects.

The daily dialogue in insurance companies is actively related to the topics: ESG products; responsible investing; managing ESG risks; digitization and innovation; employee experience and equality plan; investment in society; ethics and integrity; communication and stakeholder relations. The improved social and working environment by stimulating the launch of various insurance products by legal entities and individuals accelerates the improvement of people’s welfare.

CONCLUSION

ESG is a tool and framework that is used to achieve a good balance between financial and economic performance, transparency, social interests and the environment. The challenges facing insurers in the long and short term are many. The difficult current post-COVID-19 period and the country’s demographic problems are two very strong influencing factors, especially in the insurance sector. The lack of sufficient information, incorrect attitudes and unwritten or incomplete guiding policies through which sustainable finance is realized can worsen the financial results of insurance companies.

ESG standards drive innovation in available insurance services, products and processes. This will also achieve a high level of digitization of self-service tools and the use of less paper. Applying this approach also helps in the selection of new employees in insurance companies and insurance intermediaries, because the new generation of insurers wants to work in / for a company that has a cause and do not participate in the work process simply guided by the name, but also because of the behavior of the insurance company and its contribution to society.

ESG standards bring not only benefits but also risks for insurers. In the future, fines are expected to be imposed for fraud with the data on the environmental impact of the insurer, or the so-called Greenwashing, for non-compliance with standards and for having a harmful impact on the environment. Today, insurance, market, credit risk is taken into account, and tomorrow the risk related to our ecological footprint will also have to be provided for. In time, people and businesses will recognize ESG as an opportunity and this is the basis of the new way we will consume insurance protection.

There is broad consensus that ESG objectives create added value for portfolio companies such as insurance, both in terms of risk mitigation and value creation. The main goal is to enable the improvement of people’s quality of life through insurance, without disrupting that of future generations. Strengthening the insurance industry’s contribution to addressing environmental, social and governance risks and



establishing insurers as successful risk managers is a promising solution and positive opportunity for building sustainable, inclusive communities and economies on a healthy planet.

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