The Influence of Institutional Investors on ESG Decision Making within Insurance Companies: A Qualitative Analysis of Sustainable Investment Policy

"How does institutional investor pressure on insurers affect their decision-making with regard to ESG (Environmental, Social & Governance) integration in investment strategies?"

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Abstract

This thesis examines the pressure from institutional investors on the integration of ESG criteria into insurers' investment policies. Sustainable investment is gaining more attention in the financial sector, with insurers facing the challenge of incorporating non-financial aspects, such as environment and society, into their decision-making processes in addition to financial risks. The study focuses on whether and how external pressure from these investors leads to adjustments in insurance companies' ESG strategies.

In this study, a qualitative research method was chosen, involving semi-structured interviews with investment policy representatives of three insurers. Relevant policy documents were also analysed. This triangulation provides valuable insights into both internal decision-making processes and the role of external influences, such as the implementation of new regulations like the CSRD and SFDR and social pressure.

This study concludes that insurers perceive no significant pressure from institutional investors when it comes to integrating ESG criteria into investment strategies. Insurers are mainly internally driven to make their investments more sustainable. This is done through industry-wide agreements, such as the IMVO covenant and climate commitments, and the need to comply with stricter regulations, such as the CSRD and SFDR.

In addition, insurers are adapting their decision-making processes by integrating ESG criteria from the beginning of investment decisions, which contributes to improved risk management and exploitation of long-term opportunities. Although the immediate short-term financial effects are not yet noticeable, in the long term the application of ESG criteria is expected to lead to a stronger risk profile and better returns.

External parties, such as NGOs, apply indirect pressure on insurers through critical reporting and evaluations. This study reflects the importance of a tailor-made ESG strategy, which focuses on sector- and context-specific factors.

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1 Introduction

In recent years, there has been growing pressure within the financial sector to integrate ESG (Environmental, Social, Governance) criteria into investment decisions, especially from institutional investors (Dyck et al., 2019). These investors include pension funds, insurance companies and banks. They are increasingly influencing companies and other insurers, demanding sustainable investment strategies to ensure long-term risks and returns (Matos, 2020). This research focuses on how this institutional pressure influences insurers' decision-making with regard to ESG integration in their investment strategies.

The rise of ESG in the financial sector

ESG has become a significant aspect in the financial sector in recent decades. The main reason this started life was the rising focus on environmentally conscious living in the early 2000s (Clark et al., 2015). This grew further into socially conscious living as well. ESG only really got a revival after it became known that when ESG integration was ignored it carried considerable risks. The risks range from financial losses to reputational damage. According to a study by Friede et al. (2015), 90% of the academic literature shows that ESG factors have a positive relationship with financial performance of companies. As a result, ESG is becoming the norm for many insurers and other financial services companies.

Regulation is also influencing the rise of ESG (Cicchiello et al., 2022). This is strongly linked to the introduction of the Corporate Sustainability Reporting Directive (CSRD). This European directive requires companies to report according to specific sustainability standards. The CSRD extends the previously existing Non-Financial Reporting Directive (NFRD) and places emphasis on companies providing comprehensive, standardised sustainability information.[1] Yébenes (2024) points out that the combination of ESG and CSRD is causing a shift in the financial sector, with capital flows being directed towards companies that are transparent and responsible about sustainability.

[1] https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

Institutional investors

Institutional investors now play a growing role in shaping sustainable investment strategies. A study conducted in several countries shows that institutional investors are actively pressing companies to improve ESG performance (Dyck et al., 2019).

A survey among institutional investors shows that 80% of the respondents consider ESG factors as essential when making investment decisions. According to the survey, this is particularly done to create long-term value and therefore reduce risk (Amel-Zadeh & Serafeim, 2017).

Pressure on decision-making processes

Despite the extensive literature already written on ESG in the financial sector, there has been limited research on the possible specific influences of institutional investors on insurers' decision-making processes. This research therefore focuses on the question *"How does institutional investor pressure on insurers affect their decision-making with regard to ESG integration in investment strategies?"*. The aim is to investigate how insurers are adapting their investment strategies in response to the pressure they feel and experience from institutional investors to adopt stronger ESG policies. In this study, 'perceived pressure' refers to the sense of urgency and obligation experienced by insurers. This definition makes it clear that the focus is on the pressure that is directly felt and exerted, rather than the general external influence.

This research can provide insights for insurers, but also for policymakers. Besides the theoretical contributions, this research can also make practical contributions. A different study indicates that better understanding the influence of institutional investors on ESG policymaking can lead to better alignment of sustainable goals between insurers and shareholders (Ilhan et al., 2023).

2 Literature review

To explain the relevance of the study, a literature review is conducted in this chapter. The key studies in this field will be covered and the concepts that require more attention will also be explained. This is done to bring out the gap in the literature.

ESG

ESG, which is an abbreviation for Environmental, Social and Governance, includes the criteria by which organisations' environmental performance, social responsibility and governance structures are evaluated (Eccles et al., 2014). It has gained significant relevance in various sectors over the past decades. Some of these sectors include agriculture, finance and the public sector. The origins of ESG go back to the 1960s when the corporate social responsibility (CSR) movement began. This called for broader responsibility for the impact of activities on the environment and society (Carroll, 1999). However, the formal integration of ESG factors into decision-making only really took off with the United Nations' "Who Cares Wins Report" in 2004. This report showed that paying attention to ESG issues is not only socially responsible but can also bring economic benefits.[2]

The shift towards greater focus on ESG found place due to growing social awareness about environmental issues such as climate change and the need for good governance and social equity. A study showed that ESG factors can have positive long-term effects not only on financial position, but also on broader social and economic stability (Eccles et al., 2014). ESG came to be seen as an effective way to manage risks, such as climate change and social inequality, and ensure the sustainability of different sectors (Pavani, 2024).

ESG also became more relevant in the financial world, especially after the 2008 financial crisis. This crisis highlighted how poor governance practices could negatively affect the stability of markets, leading to a growing interest in ESG as a way to better manage financial risks. Investors and policymakers began to integrate ESG factors into economic analysis and investment decisions. This is supported by the analysis of Friede et al. (2015), who analysed more than 2,200 studies and found that ESG performance is generally associated with better financial performance.

[2] https://www.forbes.com/sites/georgkell/2018/07/11/the-remarkable-rise-of-esg/

Regulations around ESG, such as the European Green Deal and the Sustainable Finance Disclosure Regulation (SFDR), have further strengthened the focus on ESG in recent years. These regulations force companies and financial institutions to be more transparent about their environmental impact, social responsibility and governance structures.[3] Clark et al. (2014) argued that this transparency is crucial for strengthening market confidence and hedging risks.

A recent development within ESG is the introduction of the Corporate Sustainability Reporting Directive (CSRD). This directive, adopted in 2022 and in force from 2024, expands reporting requirements for companies in the European Union. The CSRD replaces the previous Non-Financial Reporting Directive (NFRD) and imposes stricter reporting requirements on more types of companies, including medium-sized companies.[4] The CSRD requires companies to report ESG information according to standardised criteria, leading to comparability and transparency. This is supported by research by Primec and Belak (2022), who indicate that uniform ESG standards are essential for market transparency and preventing greenwashing. In addition, review by external auditors increases the accuracy of reporting, thereby improving the reliability of the data provided (DeFond & Zhang, 2014).

Recent literature indicates that the CSRD is positioned as a profound tool that encourages organisations to fundamentally review their internal reporting and control systems. Authors stress that implementing the CSRD goes beyond only compliance with legal obligations. Organisations are challenged to optimise existing data collection processes and implement new IT solutions that collect and analyse both financial and non-financial indicators in a coherent manner. This restructuring requires stronger internal cooperation, with departments such as finance, IT and sustainability management working together to create a unified approach to sustainability reporting (Farkas & Matolay, 2024).

Investments in training and change management are also necessary so that employees can effectively apply the new methodologies and analysis tools. This transformation ultimately leads to a more integrated approach to sustainability, which not only strengthens transparency but also enables organisations to proactively respond to rapidly changing sustainability challenges (Farkas & Matolay, 2024).

[3] https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en
[4] https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

The SFDR, as mentioned before, also plays a role in ESG integration. One study highlights the SFDR as a crucial driving force within the financial sector, aiming to improve transparency and comparability of sustainability information. The SFDR requires financial institutions to provide a detailed understanding of their methods for identifying, measuring and managing ESG-related risks. This emphasises the development of advanced risk models that integrate both qualitative and quantitative analysis. The authors discuss how these regulations lead to a systematic review of existing investment processes, using new analytical techniques such as scenario analysis and predictive models (Busch, 2023).

Moreover, the SFDR contributes to communication between institutions and their stakeholders, as a unified reporting structure allows sustainability profiles to be evaluated in a comparable manner. This transparency strengthens investor confidence and encourages a more proactive approach to risk management, which is essential for achieving a sustainable and responsible financing strategy.

Societal demand for sustainable practices and products is also growing, especially among younger generations who value sustainability and social justice more (Gray et al., 2019). This has led to wider acceptance of ESG criteria across all sectors.

NGOs and Covenants

In addition to institutional investors and regulatory parties, non-governmental organizations (NGOs) and covenants also influence ESG policies. NGOs act as independent watchdogs that expose shortcomings in sustainability policies through critical reporting and public campaigns. This external pressure not only forces insurers to review and improve their policies but also encourages the implementation of tighter internal controls and more transparent reporting systems. A study confirms this, saying that NGOs can significantly influence organisations through their independent position and expertise in environmental issues, forcing them to develop more responsible and sustainable practices (Spar & La Mure, 2003).

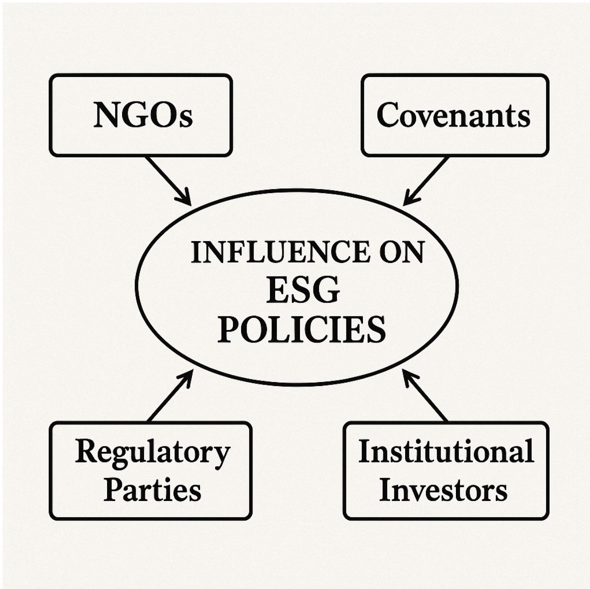

Figure 1: Influence on ESG Policies

Covenants also influence ESG integration by strengthening cooperation between insurers, investors and civil society organisations. The IMVO covenant is a joint agreement between these parties. It aims to strengthen sustainability in the financial sector. Specifically, the covenant means that the parties involved agree on sustainability objectives, transparent reporting and evaluation and improvement. This creates a framework that complements legal requirements with voluntary, practice-based agreements, promoting accountability of sustainability efforts.[5]

Sustainable investment

Institutional investors use their large financial resources and significant shareholdings to influence how companies make decisions. An aspect of this is the integration of sustainable investing, where investment decisions are made not only on the basis of financial returns, but also on the basis of ESG criteria (García-Sánchez et al., 2022).

Sustainable investment is seen as a way to better manage risks in the long term while also contributing to improving the environment and contributing to a better society. While investments from the past focused on maximising financial profits, the integration of ESG factors now ensures that investors also consider non-financial risks, such as the impact of climate change, social inequality and poor governance (Schoenmaker & Schramade, 2019). Institutional investors, with their influence on markets, play a crucial role here. They have not only the resources, but also the responsibility to encourage companies to operate sustainably.

The literature shows that institutional investors are exerting more pressure on companies to include ESG criteria in their investment decisions. This is often done through active share ownership, with investors using their vote at shareholder meetings or engaging directly with management on sustainability and good governance (Coffee, 2022). For insurers, which often manage large investment portfolios, this perceived pressure would mean rethinking their approach to sustainable investment. Insurers traditionally use a risk-driven approach, pressure from institutional investors may prompt them to integrate ESG factors more to ensure both financial stability and social responsibility (Froot, 2007).

What is striking in the existing literature is that while there has been research on the role of institutional investors in general for companies, there is a gap in understanding their

[5] https://www.imvoconvenanten.nl/nl/waarom

specific influence on decision-making within the insurance sector with regard to ESG integration. Research shows that institutional investors can have a positive impact on the sustainability performance of companies in various sectors (Dyck et al., 2019), but how this translates to insurers, with their unique focus on risk management and regulatory compliance, remains underexplored.

Insurers face specific challenges that differentiate them from other sectors, such as their long-term obligation to insurance policyholders, solvency requirements from the European Union and liquidity requirements from other regulators. As a result, insurers are generally more conservative in their risk profile (Istrate & Badea, 2017). The question unanswered by the literature is to what extent institutional investors are responsible for the increased emphasis on ESG integration at insurers, or whether this shift is more likely the result of external regulations, such as the CSRD and SFDR, or internal corporate strategies. For example, Daugaard and Ding (2022) state that tighter regulation is a key driver of ESG integration, but there is little research examining whether institutional investors are taking the lead here, especially within the insurance sector.

It remains unclear to what extent insurers are willing to integrate ESG factors into their investment strategies if it exposes them to short-term financial risks. Although some studies, such as that by Fulton et al. (2012), suggest that ESG investments can yield better financial performance in the long term, because of their role in risk management, insurers should carefully consider how ESG integration fits into their broader risk strategies. This trade-off between risk and financial return is a topic that requires further research to fully understand how institutional investors influence insurers in their sustainable investment decisions.

In conclusion, despite the growing importance of institutional investors as promoters of sustainable investment, the specific impact of their pressure on insurers' decision-making on ESG integration remains underexamined in the literature.

3 Methodology

When conducting research, it is crucial to provide a solid justification of the research method (Islam et al., 2021). This research addresses the main question: ‘How does institutional investor pressure on insurers affect their decision-making with regard to ESG integration in investment strategies?’ This chapter explains how this research was conducted. It will look at research design, data collection, data analysis and ethical considerations.

Research design

This study used qualitative research, with the aim of understanding the influence of institutional investors on ESG decision-making within insurance companies. A qualitative approach was chosen because it involves exploring perceptions, motivations and behaviours of people involved in ESG integration. Bryman (2016) points out that qualitative research has the potential to gain in-depth insights into complex processes, such as the influence of external parties on internal decision-making.

To properly answer the research question, semi-structured interviews and document analysis are used within this qualitative research. These methods complement each other, as interviews provide direct insight into personal experiences and perceptions of individuals making investment policy at insurers, while document analysis of policy documents and communications on ESG provides objective, formal data to support the findings (Bowen, 2009). This combination of data helps to enhance the reliability of the study and provides a strong basis for drawing conclusions in the further process (Noble & Heale, 2019).

Data collection

Interviews and document analysis were used for data collection. Interviews are one of the most used methods in qualitative research, as they allow the researcher to delve deeply into the participants' experiences and gain context-specific insights (Gill et al., 2008). In this study, semi-structured interviews were conducted with representatives of investment policies at insurance companies. The choice of semi-structured interviews was deliberate, as it offers a balance between flexibility and consistency. A study says that this method allows the researcher to steer a conversation with targeted questions, but also to respond to unexpected, valuable insights from respondents (Peters & Halcomb, 2015). The flexibility of these interviews allows new themes or perspectives relevant to the study to emerge without losing the core focus.

Participants were purposively selected based on their involvement in investment policy within their organisation. Purposive sampling is a widely used technique in qualitative research and allows the researcher to select participants who have specific knowledge or experience of the research phenomenon (Palinkas et al., 2013). A sample size of 3 different insurance companies achieves sufficient depth and variety of perspectives without making it difficult to analyse the data properly within time. Two respondents were interviewed at each insurer to ensure both the reliability and validity of the research data. By interviewing two people, the answers of both can be compared (Kumar et al., 1993). The interviews lasted around 30 minutes and were recorded with the consent of the participants. The recordings were fully transcribed for analysis.

To effectively answer the main question, sub-questions have been developed from the key aspects of the literature review. These sub-questions have been formulated to relate specifically to insurers' investment policies. The questions are split into two parts below, first the sub-questions that directly address the main question, then the sub-questions that provide supporting context. Together, they form the basis of the interview questionnaire.

The sub-questions that directly address the main question are:

- Is direct pressure experienced from institutional investors on insurers?
- How is ESG incorporated into investment strategies?
- How do internal processes embed ESG in investment policies?
- What effects does ESG integration have on investment performance and risk?

The sub-questions that provide supporting context are:

- What impact do regulations have on ESG integration?
- What role do industry collaborations play when it comes to ESG integration?
- Do sector and context-specific factors influence ESG integration?

In addition to interviews, a document analysis was conducted of policy documents. The required documents were collected by using the following sources:

- Public sustainability reports from insurers
- Investment policy documents of insurance companies
- Annual reports of insurance companies

Data analysis

The data from the interviews and document analysis was analysed using thematic analysis. This is an analysis method in which data are coded and analysed based on recurring themes and patterns. Thematic analysis provides flexibility and depth, which is valuable in studies exploring the nature of influence and perception (Attride-Stirling, 2001).

Particularly, this study used a thematic approach where the transcript fragments are systematically coded using a hybrid method, combining pre-established codes with inductively developed codes. This is a widely used method and is described by Braun and Clarke (2006) and is further supported in the literature (Bryman, 2016). Ultimately, this method allows for the integration of both pre-determined theoretical concepts and spontaneously emerging insights from the data. In the coding process, the main codes were based on the seven pre-formulated sub-questions. The subcodes were created based on the spontaneously emerging insights from the data. The codebook used for this research can be found in appendix 1. Triangulation helps to strengthen the internal validity of the study (Noble & Heale, 2019).

All six interviews provided similar answers, indicating that a saturation point had been reached. Additional interviews were expected to provide limited new insights. The group interviewed, consisting of CFOs, financial managers and ESG managers, can be considered homogeneous. This group shares similar backgrounds and operates within similar financial and regulatory environments, significantly reducing the likelihood of variation in responses.

Research by Guest et al. (2006) shows that in homogeneous groups, six interviews are often enough to cover the main topics. In addition, Malterud et al. (2016) and Hennink et al. (2017) emphasise that consistent answers are more important than the number of interviews. Mason (2010) supports this by indicating that with a sharp research question and a homogeneous sample, few interviews already provide robust and valid insights.

The consistency in responses within this homogeneous group confirms the robustness of the study, even with six interviews.

Ethical considerations

This research complies with the university's ethical guidelines and the European Code of Conduct for Scientific Integrity.[6] All participants were informed in advance of the purpose of the study and gave written consent to participate. Their anonymity and confidentiality will be ensured, with all personal data removed or coded in the submitted thesis. As indicated by Orb et al. (2001), researchers need to ensure confidentiality in qualitative research, as participants share personal experiences and insights. In addition, participants were given the opportunity to withdraw at any time, in line with the principle of voluntariness and respect for autonomy.

[6] https://www.allea.org/wpcontent/uploads/2018/01/DU_ALLEA_Europese_gedragscode_voor_wetenschappelijke_integriteit.pdf

4 Results

This chapter presents the results. The research question that is at the centre of this study is: ‘How does institutional investor pressure on insurers affect their decision-making with regard to ESG integration in investment strategies?’ This results chapter is structured based on the sub-questions formulated in the previous chapter. Each sub-question is discussed in a separate paragraph, after which an overarching analysis of all paragraphs is presented at the end. The sub-questions from the previous chapter are reiterated below:

- Is direct pressure experienced from institutional investors on insurers?
- What impact do regulations have on ESG integration?
- How is ESG incorporated into investment strategies?
- How do internal processes embed ESG in investment policies?
- What role do industry collaborations play when it comes to ESG integration?
- What effects does ESG integration have on investment performance and risk?
- Do sector and context-specific factors influence ESG integration?

As mentioned in the previous chapter, this study used a qualitative approach. Semi-structured interviews were conducted with those responsible for investment policy in the sector, so that in-depth insights could be gained into their experiences and internal decision-making processes. An overview of the respondents can be found in the table below.

Respondent	Type of insurer	Role
1	Large private insurer	Chief financial officer
2	Large private insurer	Financial manager
3	Large health insurer	Chief financial officer
4	Large health insurer	Financial manager
5	Large transportation insurer	Financial manager
6	Large transportation insurer	ESG manager

Table 1: Respondents

In addition to the interviews, a document analysis of relevant policy documents was conducted, mapping internal strategies and processes around sustainable investing. Applying triangulation strengthens the reliability of the study, with the strengths of one method counterbalancing the limitations of the other (Noble & Heale, 2019).

4.1 Pressure from Institutional Investors

The interviews consistently show that insurers experience little or no direct pressure from institutional investors to adjust their ESG integration. Instead, guidance for SRI comes primarily from internal strategic choices and adherence to joint industry agreements, such as the IMVO covenant and climate commitments.

A respondent stated in the first interview: “No, only the climate commitment, which is also what is signed by the Insurers’ Association and therefore also by us. I don't feel any pressure from other institutions to really make things explicit.” This statement shows that the only external influence comes mainly from the joint climate commitment, which serves as a starting point for further sustainability steps, but that no direct pressure is felt from other institutional parties.

In another interview, a respondent stressed: “The way I experience it, it is mainly that we from our side are putting a bit more pressure. We think it is very important, and we do go hand in hand with it, but that pressure does not come so much from their side.” This underlines that in practice, the initiation for ESG integration is determined internally. Organisations themselves set high sustainability standards and take proactive measures, without external institutional investors forcing them to change. And another respondent indicated: “No, I don't experience that.” This was also reflected in interviews with other insurers when asked if they experienced pressure from institutional investors: “No, not very consciously as far as I am concerned.”

Despite the lack of direct pressure from institutional investors, insurers do experience some indirect pressure from NGOs and comparison sites. One respondent indicated that external reports and ratings, for example through the Fair Insurance Guide, do trigger internal reflection and improvement. However, this applies more as a stimulus for transparency and internal optimisation than as a direct guiding force.

In summary, insurers do not feel direct pressure from institutional investors to review their ESG integration. Instead, they initiate the adjustments themselves based on internal strategic considerations and the need to comply with joint industry agreements, such as the IMVO covenant and climate commitments. Although external parties such as NGOs exert indirect pressure through reporting and comparison sites, the steering for SRI remains primarily internal, which is a significant departure from what some theoretical frameworks suggest.

4.2 Role of Regulation

Regulations play a crucial role in how insurers integrate ESG factors into their investment and risk management processes. Both the interviews and the analysis of internal policy documents show that external obligations, such as the introduction of the Corporate Sustainability Reporting Directive (CSRD) and the Sustainable Finance Disclosure Regulation (SFDR), are forcing organisations to review their internal framework. At the same time, insurers are leveraging these external pressures to further refine their strategies and develop strong, internally driven ESG policies.

In the interviews, respondents indicated that they do not perceive the stricter regulations as solely an external pressure, but as a motivation for positive change. One respondent commented as follows: "The new regulations force us to thoroughly review our internal processes." This statement highlights that the introduction of stricter ESG reporting requirements leads to a structural review of internal processes. Another respondent stated something similar: "We do not see the requirements from the government as a burden, but as an incentive to further professionalise our ESG integration and structurally embed it in our decision-making." This shows that the organisations concerned are using external regulations to strengthen their internal framework. This is further supported by internal policy documents. For example, the Strategic Investment Policy of an insurer records that SRI is an integral part of their risk management and long-term strategy. It uses international standards such as the OECD guidelines and UNGP as a starting point.

A third respondent explained how these external rules are translated into day-to-day practice: "Our investment committees continuously evaluate our compliance with both national and international regulations so that we are not only compliant, but also strategically forward-thinking." This quote confirms ongoing internal monitoring, where compliance goes hand in hand with strategic innovation.

The policy documents of two major insurers further illustrates this process. One document describes a comprehensive due diligence process, in which ESG criteria are systematically evaluated and negative risks are managed through strict exclusion criteria and engagement strategies. Another policy document highlights that explicit reduction targets, for example in terms of carbon emissions, are set to monitor the effectiveness of ESG policies.

In summary, the interviews show that external regulation is not perceived as pressure but serves as a motivation to establish covenants. Respondents emphasise that they actively use obligations from laws and regulations to professionalise their own ESG integration.

4.3 ESG Integration

While coding the interviews, it became evident that respondents do not consider ESG a sideshow, but an essential tool that supports both the management of risks and the exploitation of opportunities.

One respondent put it as follows: “We already systematically integrate ESG criteria into our investment decisions because we are convinced that this helps us better manage risks and exploit opportunities.” This quote provides additional evidence that integrating ESG criteria is a fundamental part of investment decisions. The systematic inclusion of ESG factors helps the organisation identify and mitigate both financial risks and social risks at an early stage. Respondents indicate that this approach leads to a better risk profile and a more positive long-term development.

Another respondent stressed the importance of ESG in the strategic vision: “Our investment strategy is not complete without a thorough evaluation of ESG aspects. This is at the heart of our long-term vision.” This statement indicates that ESG integration is more than a sideshow, it is woven into the entire investment process. The emphasis is on continuous evaluation, integrating ESG aspects both in the initial selection of investments and in the periodic monitoring of the portfolio. This is closely in line with the internal policy documents, which clearly describe that ESG criteria are systematically taken into account from the initial screening phase to continuous evaluation.

Furthermore, a third respondent stated: “ESG is not a sideshow for us, but an essential tool that enables us to identify and mitigate both financial and social risks in a timely manner.” This quote emphasises that ESG integration is really linked to managing risk. Respondents see strategic added value in this, it enables them to proactively respond to changes in the market and social developments.

In summary, the statements from the interviews confirm that ESG integration is a strategic priority within investment processes. Respondents see the systematic application of ESG criteria as indispensable for managing risk.

4.4 Investment Policy & Decision-Making

This paragraph is a continuation of the previous paragraph. The interviews reveal a restructuring of internal decision-making processes. This is necessary to systematically integrate ESG criteria into both strategic planning and day-to-day operational decision-making.

One respondent gave a general impression: "Our investment policy is constantly being adjusted, we have clearly noticed that traditional decision-making is no longer sufficient if we want to integrate ESG criteria effectively." This statement shows that existing decision-making structures are being revised to better embed ESG aspects. In doing so, the restructuring focuses on both governance and operational processes within the organisation.

Regarding governance structures, another respondent explained, "Our investment committee now meets much more frequently; we review the impact of ESG on our investment portfolio every quarter, which sets a new standard in our decision-making." This shows that the frequency of meetings and the involvement of key players has increased. This indicates a conscious decision to consider ESG integration as a core part of the decision-making process. It also ensures continuous attention to the risks and opportunities presented by ESG.

Internal alignment on ESG integration is further enhanced by specific working groups. One respondent explained this: "Then an ESG working group was started within our organisation to comply with the CSRD, and there is also an ESG steering group that formulates principles on how we shape our ESG ambitions." This statement highlights that the organisation has actively established internal consultation structures to translate ESG objectives into concrete policy adjustments.

A third respondent gave insight into the practicalities of these revisions: "We basically update the policy once every 3 years. We evaluate every year, the investment policy, and if it turns out that different choices have been made based on the Association of Insurers, we adjust it earlier." This shows that the implementation of ESG criteria leads to concrete policy adjustments. These adjustments are reviewed on a regular basis, so that the policy always remains current and in line with developments at both market and regulatory levels.

In summary, the interviews show that investment policy within insurers is a dynamic process. This approach ensures that ESG criteria are not just a theoretical starting point, but are actually embedded in decision-making and implementation of investment policy.

4.5 Collaboration & Industry Initiatives

Cooperation within the sector appears to play a crucial role in the development and implementation of ESG policies. The interviews show that insurers actively network and engage in joint initiatives with other insurers, banks, pension funds as well as external parties such as NGOs. These external actors put pressure on the organisations to improve their policies and communicate transparently.

For example, one respondent from the first interview commented: “So the Climate Commitment Consultation is very much about consultation between NGOs, between insurers, banks, pension funds.” This statement highlights that NGOs play a key role in identifying areas for improvement and sharpening ESG initiatives. External evaluations and reports, as provided by comparison sites such as the Fair Insurance Guide, ensure that insurers are continuously challenged to optimise their policies.

In addition, the IMVO covenant is an essential tool within the sector. As one respondent stated: “The IMVO covenant was signed by insurers and NGOs in 2019, and so those agreements form a common basis on which we align our ESG policy.” The covenant provides a standard against which insurers can assess their ESG activities. These joint agreements contribute to a uniform approach, reducing differences between organisations and helping the sector as a whole make progress.

Climate commitments also play a prominent role. One respondent stressed: “As an organisation, we have already clearly communicated our climate commitment and that serves as a starting point for all our further steps towards sustainability.” The climate commitment encourages insurers to set concrete goals, such as setting CO_2 reduction targets until 2030, and is thus a driver for making investment portfolios more sustainable.

Furthermore, the interviews reveal that cooperation is also strongly embedded between insurers. One respondent indicated: “We have quite frequent contact with other insurers, we exchange knowledge and help each other move forward in this transition.” This continuous consultation, both through formal meetings and informal networks, reinforces the joint commitment to sustainability and helps insurers share best practices and compare each other's policies.

In summary, insurers do experience some pressure from external parties, especially NGOs, providing critical assessments and reporting. At the same time, the IMVO covenant and climate commitments offer a common foundation and defined goals for the sector. This combination of external pressure and internal cooperation creates a collective approach, allowing insurers to constantly adjust and optimise their ESG policies to both comply with regulations and perform sustainably.

4.6 ESG Impact on Investment Performance

Respondents indicate that the implementation of ESG policies is already having noticeable but so far limited effects on investment outcomes. The impact is seen as a gradual process, the full benefits of which will only become apparent in the long term. For instance, when asked if he already notices a difference in investment outcomes, one respondent replied: "Yes, that's hard to say. Look, I think every institutional investor obviously has their own beliefs with it and they differ. In any case, we think it is going to give similar and, in the long run, even better returns. We can really know that in 20 years' time." This shows that although the current effects still seem limited, a positive impact on returns is expected in the long term.

In summary, the perceived effects of ESG policies are perceived as modest for now, but insurers are convinced that the long-term benefits, such as an improved risk profile and better returns compared to the grey benchmark, will eventually be decisive.

4.7 Industry- and Context-Dependent Factors

The unique characteristics of the insurance sector and the context in which an organisation operates help shape the way ESG policies are developed. The interviews show that the type of insurance company affects which ESG topics are seen as most relevant and how they are approached in practice.

For example, one respondent stresses the importance of the target group and market-specific context: "We are business to business. We don't do individuals. And what you see mainly with insurers that insure individuals is that ESG is a spearhead, whereas for us it makes less sense." This statement indicates that the focus on ESG criteria depends heavily on customer segments and the nature of the business. Whereas insurance companies for individuals often profile themselves in terms of public responsibility and customer satisfaction, business-to-business insurers take a more pragmatic approach that reflects the realities of their market environment.

In addition, respondents talk about the specific operational challenges and risk management processes within the sector. “We transport by road and water and are responsible for a large proportion of emissions. Our sector is still struggling with how to become more sustainable, especially when it comes to operational challenges such as transport electrification.” These factors force insurers to closely align their ESG approach with what is practically feasible. At the same time, they must comply with strict legal frameworks, such as the CSRD, which require that sustainability aspects in business operations and investment portfolios are also closely monitored.

Furthermore, the need to meet regulatory obligations, such as solvency standards and long-term commitments, appears to play a significant role. These factors ensure that insurers base their ESG policies not only on external pressure, but primarily on a thorough analysis of their own risks and the specifics of their operations.

In summary, sector- and context-specific factors determine to a slight degree how insurers shape their ESG policies. The nature of operations influences priorities and the choice of specific ESG criteria, such as the extent to which exclusion criteria are used. In addition, operational challenges, such as sustainability, play a role. This ensures that there is no one-size-fits-all approach, but that each insurance sector tailors its ESG policy to the unique circumstances of its own market.

4.8 Analysis

The aim of this research is to investigate how insurers are adapting their investment strategies in response to the pressure they feel and experience from institutional investors to adopt stronger ESG policies.

When evaluating whether institutional investors exert direct pressure on insurers, the results show that insurers experience little to no direct pressure from institutional investors to adjust their ESG integration. Instead, the push for change comes primarily from within, based on strategic choices and common agreements, such as the IMVO Alliance and climate commitments. Although external reports from NGOs and comparison sites do prompt reflection, policy is not directly driven by these parties.

The introduction of stricter regulations does play a role. New guidelines, such as the CSRD and SFDR, are forcing insurers to review their internal processes. They do not see these obligations as an obstacle, but rather as an opportunity to further professionalize their ESG integration and structurally embed them in their decision-making.

ESG criteria are now being factored into investment decisions from the beginning. Insurers are convinced that integrating these factors is essential for better risk management and to make the most of opportunities. This leads to a healthier risk profile and lays the foundation for positive long-term development.

Decision-making processes are also being adapted. With more frequent meetings and the establishment of specific ESG working groups, insurance companies are making sure that sustainability is actively integrated into both strategic and operational decisions. This keeps their investment policies constantly evolving and in tune with the latest developments.

Cooperation within the industry is a driver of these changes. Insurers work closely with each other, banks, pension funds and NGOs, leading to a collaborative approach in shaping sustainability policies. This cooperation, including through initiatives such as the Climate Commitment Consultation, helps the sector as a whole move forward.

Evaluating the effects of ESG integration on investment performance and risk shows that, although the tangible short-term impacts of ESG policies seem limited, there is widespread belief that the long-term benefits, such as an improved risk profile and better returns, will eventually pay off. Implementing these measures is seen as a gradual process.

Finally, it appears that the specific characteristics of the insurance industry and market conditions influence the implementation of ESG policies. Depending on the customer profile and operational challenges, insurers tailor their sustainability strategies. This creates a nuanced approach in line with their own market realities.

5 Discussion & Conclusion

This chapter reflects on the results from the study on the influence of institutional investors on decision-making around ESG integration in investment strategies at insurance companies. Contrary to what some previous studies suggest, the results from this study indicate no significant perceived pressure from institutional investors on insurance companies. Instead, it appears that the drivers for ESG integration are mainly internally motivated, focusing on both strategic choices and compliance with common industry agreements such as the IMVO covenant and climate commitments.

While the literature generally states that institutional investors actively pressure investment policies to become more sustainable, this study suggests that there is no perceived pressure from other insurers, banks and pension funds on insurers' ESG integration policies. Studies such as those by Dyck et al. (2019) and Coffee (2022) show that institutional investors use active share ownership and engagement as incentives to strengthen sustainability policies, for instance by exercising voting rights and engaging in direct dialogues on policy changes. Amel-Zadeh and Serafeim (2017) also highlight that ESG performance is a key criterion in investment decisions, implying that there should be pressure to structurally adjust investment strategies.

Moreover, Fulton et al (2012) argue that pension funds, as institutional investors, often impose specific requirements on their investments to ensure sustainability. According to them, this pressure forces them to adjust investment policies and structurally integrate ESG criteria into decision-making.

Despite all this literature, the findings of this study indicate that insurance companies perceive no significant direct pressure from other insurers, banks and pension funds. In the organisations interviewed, pressure from these institutional investors seems to be mainly through indirect channels, such as through industry-wide agreements and compliance with strict regulations (CSRD and SFDR).

This difference between theoretical expectations and these findings suggests that the insurance sector has specific characteristics. It is plausible that sector-specific agreements partly offset direct pressure from other institutional investors, resulting in more autonomous ESG integration policies.

Regulations

The results also show something else, namely that external regulations, such as the CSRD and SFDR, play a central role in encouraging ESG integration. Instead of seeing these regulations as a hindrance, insurers perceive them as an incentive for internal professionalisation and revision of their investment policies. This finding is consistent with recent insights (Farkas & Matolay, 2024), indicating that stricter regulations force organisations to thoroughly evaluate and optimise their internal processes.

Pressure from NGOs

Although no pressure from institutional investors is perceived, it appears that NGOs do play a role in influencing insurers' investment policies on ESG integration. This research highlights that NGOs act as independent watchdogs that through critical reporting, public campaigns and external rating initiatives, expose shortcomings in sustainability performance.

Moreover, the interviews reveal that NGOs also have a say in initiatives such as the Climate Commitment. This encourages insurers to improve their policies and structurally integrate ESG criteria into their investment decisions. According to Spar & La Mure (2003), due to their independent position and expertise, NGOs can provide a powerful impulse to the development of responsible policies, prompting insurers to proactively implement sustainability measures.

Theoretical and practical contributions

This study adds new insights to the existing literature on ESG integration in the insurance sector. Contrary to what previous studies often suggest, this research shows that there is no significant pressure perceived from institutional investors on investment policies for ESG integration. Instead, joint industry agreements and compliance with strict regulations (such as the CSRD and SFDR) play a more significant role. This research also highlights that NGOs have an influence on making investment policies more sustainable. These findings help to update existing theories on the influence of external pressures and better reflect the specific characteristics of the insurance sector.

In practical terms, the results provide guidance for insurers and policymakers. Insurers can see from this research that, despite no direct pressure from institutional investors, it is vital to make investment policies more sustainable internally. By optimising their internal processes and decision-making and working closely with external parties such as NGOs, they can better respond to the growing expectations of investors and society. For policymakers, the results indicate that strict rules, such as those of the CSRD and SFDR, can help insurers systematically integrate ESG criteria. This not only ensures regulatory compliance, but also contributes to a more sustainable financial sector.

Limitations & Future Research

This study has some limitations that may affect the interpretation and generalisability of the findings. First, a qualitative research method was chosen by using interviews. Although this method provides in-depth insights, the subjectivity of both the respondents and the researcher may lead to bias in the results (Alsaawi, 2014). In addition, the sample is limited to six interviews, which may question the validity of the data. These interviews were conducted in Dutch and then translated into English. This may lead to mistranslation or interpretation. Moreover, the study was conducted in the Netherlands, which means the findings may not be applicable to other European countries or globally as there may be differences in market conditions and regulations.

An additional limitation is that regulations surrounding ESG are constantly changing. At the time of writing, the implementation of the CSRD is under fire, meaning that future regulatory changes may affect the applicability of the results.[7]

Future research could build on this study by using a larger and more diverse sample, for example by including respondents from multiple countries. A combination of qualitative and quantitative methods could contribute to a more representative picture of institutional investors' influence on ESG integration. In addition, it would be useful to further explore regulatory changes, in particular developments around CSRD, to determine how these changes affect investment decisions and ESG integration in the insurance sector in the longer term.

Conclusion

In conclusion, the results show that insurers perceive no significant pressure from institutional investors when it comes to integrating ESG criteria into investment strategies. In contrast to previous studies, it appears that insurers are mainly internally motivated to make their investment policies more sustainable. The main motivations for ESG integration appear

[7] https://ec.europa.eu/commission/presscorner/detail/en/qanda_25_615

to lie in strategic choices, compliance with industry-wide agreements, such as the IMVO covenant and climate commitments, and in the need to comply with even more stringent external regulations, such as the CSRD and SFDR.

Insurers are changing their decision-making processes to incorporate ESG criteria from the early stages of investment decisions. This has led to an adjustment of investment policies, not only better managing risks but also taking advantage of long-term opportunities. Although the direct financial impact is not yet noticeable in the short term, the application of ESG criteria is expected to contribute to a stronger risk profile and better returns in the long term.

In addition, it appears that external parties such as NGOs do play a role by putting pressure on insurers through critical reporting and evaluations. This is also done by showing ESG results on comparison websites. Indirectly, this puts pressure on insurers. The study thus contributes to the existing literature by showing that in the insurance sector, the dynamics around ESG integration depend less on direct institutional pressure and more on internal strategic choices and regulatory compliance.

Finally, this study shows the importance of a tailor-made ESG strategy, in which sector- and context-specific factors play a role. Insurers should therefore invest in the professionalisation of their internal processes in order to respond adequately to changing requirements from both the market and regulations.

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Appendix

This chapter contains all the appendixes that are used in this research.

Appendix 1: Codebook

A. Pressure from Institutional Investors

- *A1 Perception:* How much pressure does the respondent feel?
- *A2 Form:* In what way does this pressure manifest?
- *A3 Other Parties:* Role of NGOs, rating agencies, and comparison sites

B. Role of Regulation

- *B1 CSRD*
- *B2 Supervisory Authorities:* Influence of institutions such as DNB and EIOPA
- *B3 Implementation:* How obligations are executed

C. ESG Integration

- *C1 Environmental*
- *C2 Social*
- *C3 Governance*
- *C4 Integration into Investment Policy*

D. Investment Policy & Decision-Making

- *D1 Structures:* Who decides on the investment policy?
- *D2 Internal Process:* How is the process structured?
- *D3 Policy Adjustments:* Examples of adjustments

E. Collaboration & Industry Initiatives

- *E1 Internal Collaboration:* Sharing knowledge, lobbying, and forming covenants
- *E2 Collective Agreements:* Initiatives such as the Association of Insurers, IMVO, and Climate Commitment
- *E3 External Networks:* Collaboration with NGOs, consultants, and academic experts

F. Impact of ESG Policy

- *F1 Return and Risk:* Financial impact
- *F2 Reputation:* Changes in customer perception, competitive position, and comparators
- *F3 Time Horizon:* Trade-offs between short- and long-term effects

G. Industry- and Context-Dependent Factors

- *G1 Market Segment:* Differences between business and private markets or between sectors such as healthcare and logistics
- *G2 Challenges:* Sector-specific bottlenecks, for example, electrification in transport or grid congestion

- *G3 Other Context:* Other relevant factors such as the historical development of a sector or the size of the company