# HOW HEALTH-RELATED ISSUES IN ESG INSURANCE INDUSTRY CAN INFLUENCE ADVERSE SELECTION

MARIA CARANNANTE (1)
VALERIA D´AMATO (1)
MASSIMILIANO MENZIETTI (2)
STEVEN HABERMAN (3)

*University of Salerno (1),*
*University of Calabria (2),*
*University of London (3)*

**Abstract**

Sustainable criteria, i.e. environmental, social and corporate governance (ESG) factors are attracting the attention of investors, policy makers, and civil society stakeholders. ESG factors pose considerable challenges in insurance industry too. According to Insurance Distribution Directive (August 2022), insurers must quantify how far their products satisfy sustainability criteria. In particular, health insurers that are not able to meet the sustainability criteria that their customers are seeking, may perform badly in terms of ESG ratings, which might result in reputational damage (Milliman White paper). Broadly speaking, in line with the double materiality concept, the health-related issues are growing more important for the rating process as well as the rating process could affect the financial stability of health insurers. Furthermore, the individual investors with strong sustainability preferences represent a target group more willing to invest in health and life insurance products. The empirical evidences show that these customers are also characterised by a lower probability for preexisting medical disorders, potentially leading to a lower or higher portfolio risk for the insurer in respect of the different line of business. In this research, we intend to investigate the correlation among the sensitivity to the health-related issues in ESG and the mechanism of the potential adverse selection (Cutler et al. 1998; Simon 2005).

**Keywords:** *ESG, Adverse selection.*