U.S. Risk, LLC

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) CONSIDERATIONS

ESG is a set of non-financial corporate performance indicators used to measure the impact that companies have on the environment, their people, and society. A director's fiduciary duties now extend to ESG factors when providing oversight of strategy and risk, presenting significant challenges as it is both is broad in scope and murky in its impact.

› Environmental

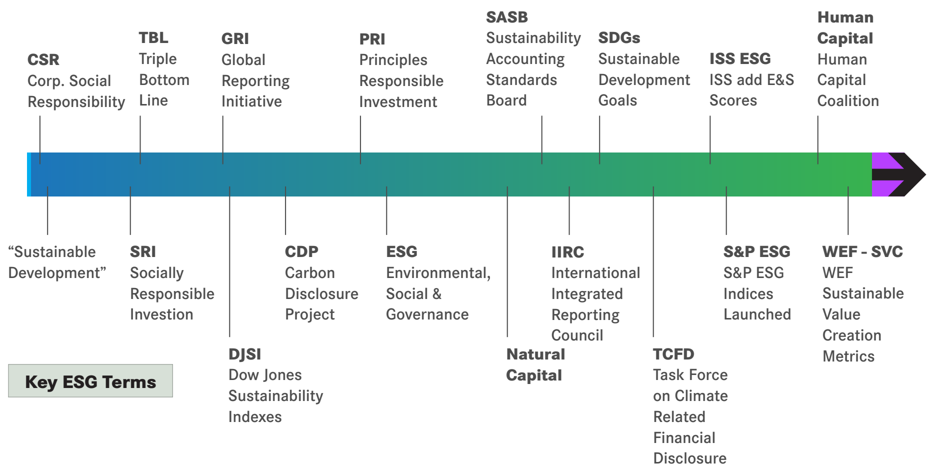
ENVIRONMENTAL	SOCIAL	GOVERNANCE
Climate Change	Health and Safety	Business Ethics
Energy Management	Human Rights	Compliance
Environmental Impact of Product Portfolio	Human Capital Management	Board Structure
	Data Privacy	Board Diversity
Environmental Management	Employee Rights	Compensation
Water Use and Sourcing	Supply Chain Exploitation	Shareholder Rights
Natural Resources	Social Movements (#BLM, #MeToo)	Executive Compensation
Biodiversity, Emissions		Anti-Corruption, Bribery

The environmental aspect of ESG has fallen under more and more scrutiny, resulting in an increase in companies providing the public with sustainability-focused disclosures. This area is comprehensive, detailed, with rapidly-evolving industry specific standards. Climate-related disclosures, a renewed focus at the SEC, looks at a business's environmental impact and can include everything from the natural resources it uses to every step in the supply chain.

We expect investors will focus more on ESG, especially the need to improve corporate transparency and stakeholder accountability. The economic impact of Covid-19 and litigation are uncertain and potentially dramatic. Allegations may include supply chain risks, risks associated with mandates to close offices and quarantine employees, to the impact on operations and financial results.

› Social

The social aspect concerns how a corporation navigates workforce matters as well as its activities within the context of the society at large, including politics. Major movements like #MeToo and Black Lives Matter are driving much of the narrative. With social matters so broad and a lack of consensus on how to frame each, measurement and reporting can be a tremendous challenge. How a company responds to current political and social issues can quickly impact financials.



› Governance

Directors are very familiar with the traditional governance element, which includes the effectiveness of the board and its committees in areas such as setting executive compensation, nominating board candidates, and overseeing financial reporting and disclosures. Because of its maturity, there's consensus on the types of issues that are meaningful from a governance perspective.

The newest topic under governance is board diversity. State bills are addressing the concern, creating requirements for board make-up to include females and from underrepresented communities. Diversity rules are extending to organizations such as NASDAQ as well. Beyond solely an issue of social justice, boards are now understanding that having a mix of individuals with differing experiences, backgrounds, and can add value for shareholders.

THE BOTTOM LINE

Boards today need to identify or refine ESG goals and how they are going to measure and communicate them in a meaningful way to investors, as well as to their insurers. It is important to work with a highly skilled D&O insurance expert that understands the rapidly changing market dynamics and provide information that can help the organization make the right decision for their evolving needs.