Guidance document

AODP GLOBAL INSURANCE SECTOR SURVEY 2018

Assessing insurance sector response to climate-related risks & opportunities

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Introduction

Welcome to the 2018 AODP Global Insurance Sector Survey, which will assess the response of the world's largest insurers to climate-related risks and opportunities. Our survey will cover the four core areas of the TCFD framework and recommendations, which are:

- Governance
- Strategy
- Risk Management
- Metrics & Targets

The primary aim of our survey is to create a valuable resource for investors, civil society and regulators in order to facilitate well-informed engagement with insurers on this important theme. We will prepare a published ranking, assessing the response of surveyed companies. Where responses are not forthcoming, we will assess on the basis of publicly available information. A further objective is to encourage and share industry best practice. The published results of our survey will be accompanied by a best practice guide based on what we learn from insurers who participate in the research process.

The benefits of participation:

1. ***Improve your rating by directly disclosing the information we need to effectively assess your organisation.***
   - Your active participation will enable us to get a clear and comprehensive insight into your management of climate-related risks and approach to the TCFD recommendations, which we would otherwise get from publicly available information.
   - Respondents are also able to follow a feedback procedure to raise their scoring concerns prior to report publication.
2. ***Gain valuable insights into your performance relative to others in your industry.***
   - Respondents receive an individual summary report comparing them with peers and identifying areas for improvement. In previous years, respondents have found these reports to be useful tools to benchmark and improve their performance.
3. ***Learn how to apply best practice in managing climate change risks and opportunities.***
   - Follow-up meetings with our Investor Engagement Officer can be scheduled post report publication in order to learn to apply best practice.

The scope

Business unit coverage. The survey covers proprietary investment assets as well as insurance business. The questions are signposted to indicate whether they relate to your organisation as an asset owner, an insurer, or your organisation as a whole. Should it be unclear from the question wording, please refer to the PDF version of the survey for explicit signposting.

Portfolio coverage. On the investment side, we often ask to indicate the percentage of your portfolio covered by a technique or a methodology used. This is because we consider the financial implications of climate change to be a systemic risk that requires top-level strategic management and governance across all portfolios. Therefore, when assessing, we are looking for evidence of recognising and managing climate-related risks and opportunities across different asset classes and, ultimately, the entire investment universe of your company, rather than in a niche investment choice.

Comprehensiveness. We recognise that levels of climate-related disclosures vary across the industry and there is no standard methodology for many of the techniques. Our questionnaire is designed in 32 questions in order to cater to a variety of approaches different companies might take. If you feel like some of the questions are not applicable to your strategy or your business model, please feel free to mark such questions as 'Not applicable'. If you feel like you cannot yet answer the questions positively because your company has not yet implemented a climate strategy, please feel free to comment on the progress that is currently being made.

How the data will be used

The data will be used on an aggregated basis to create a published ranking and an assessment report. To do so, it will be quantified in line with our scoring methodology published in January when participating insurers will also be able to raise their scoring concerns following the feedback procedure.

Individual entry data may also be used for a qualitative assessment and best practice publication but permission will always be sought beforehand.

Entry data will also be used to create individual summary reports comparing with peers and identifying areas for improvement (these will be distributed to participating insurers and will not be shared publicly).

Submitted responses may be shared with third parties (investors, civil society and regulators) in order to facilitate well-informed engagement but participating insurers are able to restrict such use of data in the Public Disclosure section.

Reporting time frame

Deadline for responses is the **19th January 2018**. We would kindly ask you to ensure your submission is ready prior to that date as extensions are not factored into the time frame. Should information not be provided by the deadline, our research team will populate the survey using publicly available information, retracting an offer of participation benefits.

AODP will publish the report in March 2018.

Feedback procedure

Participating insurers will be able to follow a feedback procedure to raise their scoring concerns prior to report publication. We will get in touch with each respondent individually to follow up on this after the submission deadline in January.

Completing the survey

No participant is expected to answer every question positively but please refrain from leaving questions blank, a 'Not applicable' or 'No information available' option can be selected instead.

Each question has a comment box where we ask you to evidence your answer and possibly elaborate on your approach. We leave it to you to decide on the level of commentary you supply. Please note that succinct but comprehensive commentary will enable us to produce more meaningful insights for the public report as well as for the individual summary report prepared specifically for your organisation.

Guidance and definitions

Definitions given below are adapted from TCFD, SASB, CDSB and other frameworks referenced at the end of this document. They follow an order in which they appear in the survey. If your business uses a different definition, please give details in your response commentary.

Materiality

Information is material if:

• The climate-related impacts or results it describes are, due to their size and nature, expected to have a significant positive or negative impact on the organisation's financial condition and business results and its ability to execute its strategy;

• Omitting, misstating or misinterpreting it could influence decisions that users of mainstream reports make about a specific reporting organisation.

Organisations should determine materiality for climate-related issues consistent with how they determine the materiality of other information included in their annual financial filings. Organisations are cautioned against prematurely concluding that climate-related risks and opportunities are not material based on perceptions of the longer-term nature of some climate-related risks.

When providing disclosures outside mainstream financial filings, asset managers and asset owners should consider materiality in the context of their respective mandates and investment performance for clients and beneficiaries.

Positive impact

While materiality determines financial impacts of climate-related issues *on investments and underwriting*, it is also possible to seek positive impact of investments and underwriting *on climate*, i.e. contribute to the transition to a low-carbon economy.

The following answer options are available for the companies looking to make a positive impact on climate:

G1.3 – The board also considers the reverse dynamics of portfolio's current and future impacts on climate
S3.1 – We have done an assessment of portfolio impact on climate
S3.2 – We have done an assessment of impact our underwriting business has on climate
MT1.1 – As an asset owner, we are also developing impact metrics
MT1.2 – As an insurer, we are also developing impact metrics
MT1.3 – Our definition of low-carbon assets includes impact-driven assets that contribute to climate solutions

Climate-related risks and opportunities

Climate-related risks refer to the potential negative impacts of climate change on an organisation. They have been divided into two major categories:

1. Transition risks – risks related to the transition to a low-carbon economy. The most common of transition risks relate to policy and legal actions, technology changes, market responses, and reputational considerations.

2. Physical risks – risks related to the physical impacts of climate change. They can be event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (e.g., sea level rise).

Climate-related opportunities refer to the potential positive impacts related to climate change on an organisation. Efforts to mitigate and adapt to climate change can produce opportunities for organisations, such as through resource efficiency and cost savings, the adoption and utilisation of low-emission energy sources, the development of new products and services, and building resilience along the supply chain.

Refer to tables A1 and A2 (TCFD Annex, pp.72–73) for examples.

Internal carbon price

The internal carbon price is an internally developed estimated cost of carbon emissions. Internal carbon pricing can be used as a planning tool to help identify revenue opportunities and risks, as an incentive to drive energy efficiencies to reduce costs and to guide capital investment decisions.

Strategy resilience and alignment

TCFD recommends describing the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario. For companies that not only *assess their resilience* but also to *aim for portfolio alignment* with a given climate scenario, we have added an alignment dimension.

Please note that the implications of strategic resilience to a given scenario might not necessarily be the same as the implications of strategic alignment with a given scenario.

A notable development in the area is the Sustainable Energy Investment (SEI) Metrics Project, funded by the EU research funding programme, that assesses the alignment of investment portfolios with climate goals. The tool has been tested by more than 250 investors globally and is entirely free to use.

Natural catastrophes

Modelled natural catastrophes are typically large-scale events, such as hurricanes and earthquakes, that the registrant has analysed using a catastrophic risk model.

Non-modelled events are typically smaller-scale events, such as floods, droughts, snowstorms, and tornados, that the registrant has not analysed using a catastrophic model (cat model).

Low-carbon assets

In the absence of an internationally-agreed definition of what qualifies as low-carbon assets, we accept various definitions used by investors.

We found the following taxonomies to be most prominent resources to date:

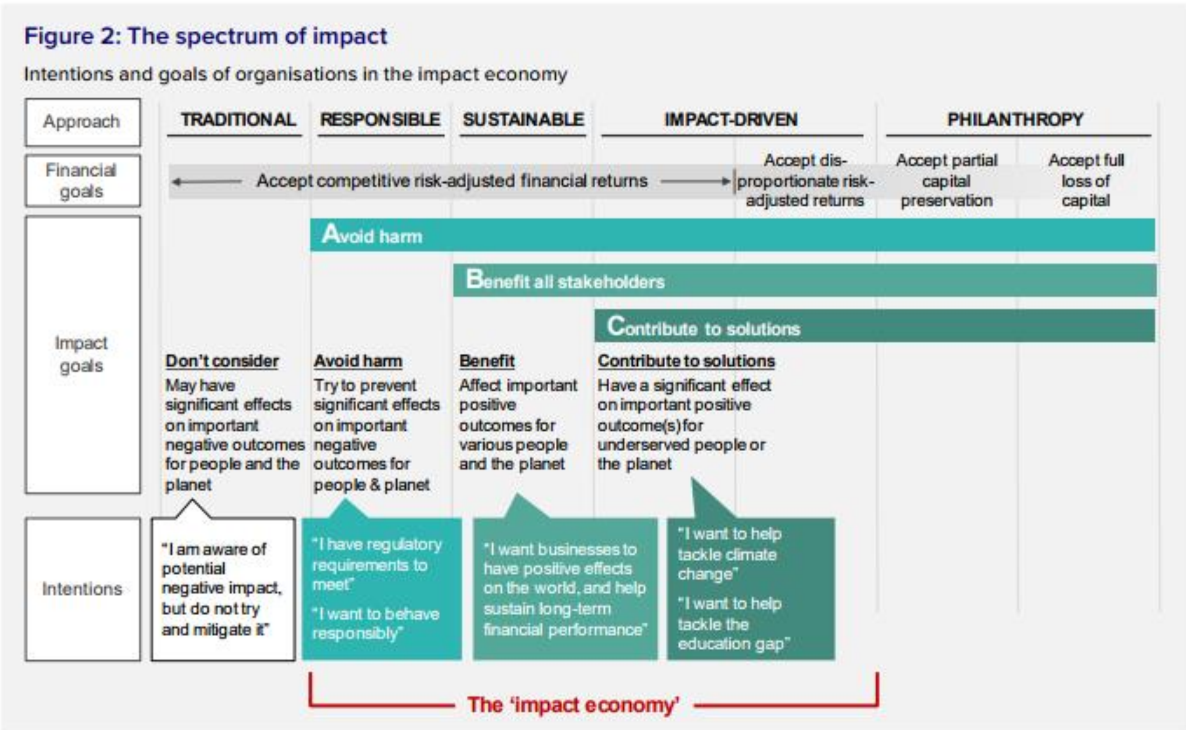
- LCI Registry's Taxonomy of Eligible Investments
- CPI's Sectoral breakdown of mitigation finance (refer to pp.5–9)
- Climate Bonds Taxonomy (full version)

An overview of a variety of existing definitions and methodologies is provided in the following documents:

- Growing Green Finance by TheCityUK (refer to pp.7–16)
- Definitions and Concepts by UNEP Inquiry

Impact-driven assets

A number of investors become interested in an impact-driven approach to their investment. We suggest ensuring that such definition includes both financial and impact goals, i.e. accepts competitive risk-adjusted financial returns and contributes to climate solutions. This is adapted from the UK NAB's Spectrum of impact graph (The Rise of Impact, p.11):



Global Impact Investing Network gives the following core characteristics of impact investing:

- Intentionality – an investor's intention to have a positive social or environmental impact through investments is essential to impact investing.
- Investment with return expectations – impact investments are expected to generate a financial return on capital or, at a minimum, a return of capital.
- Range of return expectations and asset classes – impact investments target financial returns that range from below market (sometimes called concessionary) to risk-adjusted market rate, and can be made across asset classes, including but not limited to cash equivalents, fixed income, venture capital, and private equity.
- Impact measurement – a hallmark of impact investing is the commitment of the investor to measure and report the social and environmental performance and progress of underlying investments, ensuring transparency and accountability while informing the practice of impact investing and building the field.

Please note that for the purposes of this survey, we only consider impact-driven investments aimed at climate solutions.

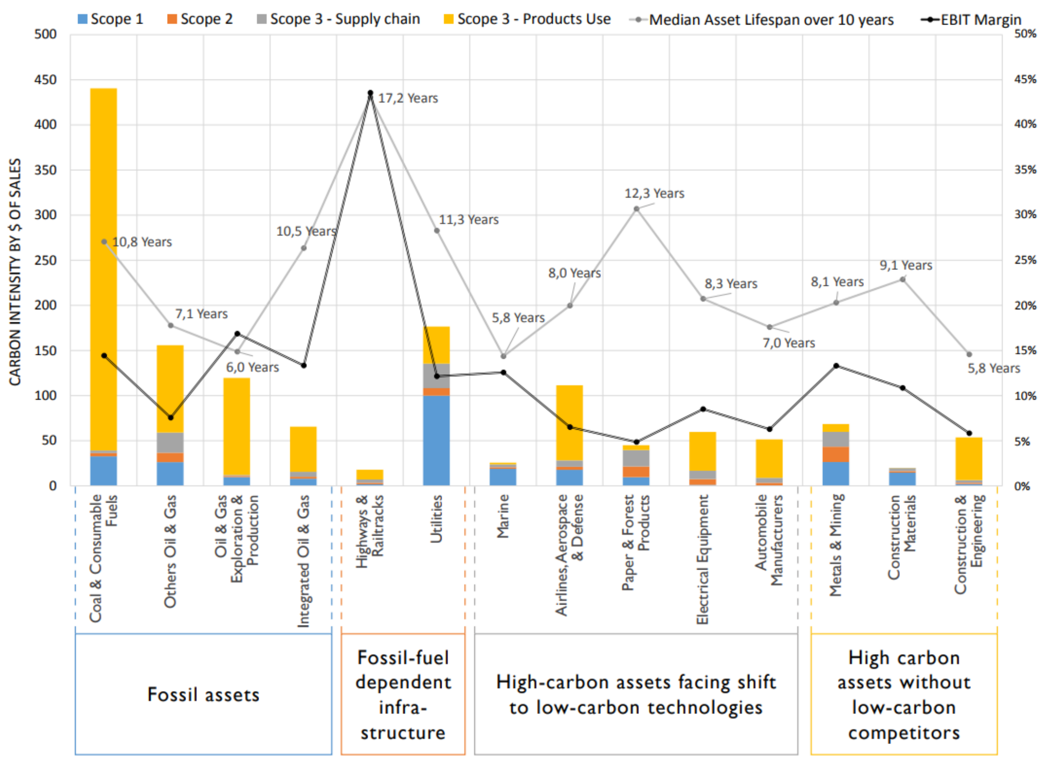
High-carbon assets

In the absence of an internationally-agreed definition of what qualifies as high-carbon assets, we accept various definitions used by investors but encourage to broaden the definition beyond fossil fuel producers, looking at high emitters and emissions-intensive sectors.

TCFD identified the four non-financial groups and their associated industries with the highest likelihood of climate-related financial impacts ([Final Report](#), p.16):

Energy	Transportation	Materials and Buildings	Agriculture, Food, and Forest Products
– Oil and Gas – Coal – Electric Utilities	– Air Freight – Passenger Air Transportation – Maritime Transportation – Rail Transportation – Trucking Services – Automobiles and Components	– Metals and Mining – Chemicals – Construction Materials – Capital Goods – Real Estate Management and Development	– Beverages – Agriculture – Packaged Foods and Meats – Paper and Forest Products

WRI and UNEP FI [Portfolio Carbon Initiative's discussion framework](#) gives guidance on assessing exposure to 'carbon risk' at the sector level (refer to pp. 23–24). Sectors are grouped into four categories: fossil-fuel assets, fossil-fuel dependent infrastructure, high-carbon assets facing shift to low-carbon technologies, high-carbon assets without low-carbon competitors:



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