EXECUTIVE SUMMARY

→ "Weather-related financial losses, regulatory and technological changes, liability risks, and health impacts related to climate change have implications for the business operations, underwriting, and financial reserving of insurance companies."

The impacts of climate-related risks are a growing reality for the insurance sector. This reality has key implications for that sector's valuation. Weather-related financial losses, regulatory and technological changes, liability risks, and health impacts related to climate change have implications for the business operations, underwriting, and financial reserving of insurance companies.

This survey utilises the framework provided by the Task Force on Climate-related Financial Disclosures (TCFD) to benchmark responses from the world's 80 largest insurers to our survey on climate-related risks and opportunities. As such, we hope it makes a significant contribution to the debate surrounding the role of the insurance sector in addressing climate change, resulting in real improvements across the sector.

LEADERS AND LAGGARDS

Finding 1, 2, 3, 4 & 5: AXA, Aviva, Allianz SE, and Legal & General are leading the way on climate risk. Tokio Marine, Legal & General, Credit Agricole, Allianz SE, Generali, NN Group, and Swiss Re showing the best year-on-year improvement when compared to the previous AODP 2017 Global Climate survey.

Perhaps unsurprisingly, the wealth of debate around climate disclosures means European insurers continue to dominate the leaderboard.

In contrast, with 43% of the poorly (D or X) rated insurers, the US is home to the most laggards. That said, an assessment of climate disclosure at The Hartford, MetLife, and Travelers provide evidence that certain US insurers are getting serious about tackling these issues.

Japanese insurers have seen a notable improvement in climate-related disclosures. Tokio Marine, the leading Japanese insurer, is rated BBB.

The TCFD recommendations provide a framework for our assessment, which looks at the companies' dual role: as insurers and asset owners.

TCFD
GOVERNANCE AND STRATEGY

Finding 6: Climate-related issues are primarily viewed as a risk related to underwriting and investment portfolios, not as a business opportunity

More than two thirds (69%) of the assessed insurers were able to disclose financially material climate-related risks but only 41% were able to identify business opportunities.

Finding 7: Reporting on climate risks differs between business models and area of operations

Direct insurers (property, real estate, corporate) and reinsurers have a greater tendency to identify climate-related risks when compared to life insurers.

Finding 8: Just a third of insurers surveyed can say their approach to investing is climate-aware

34% have introduced policies, objectives, and strategies that aim for alignment with the goals of the Paris Agreement on energy transition or have integrated climate risk policy across asset portfolios. Despite these encouraging steps, 41% have not formalised their approach to climate-related risks and portfolio management. A further 25% applied a limited approach that is guided by a broad set of sustainability principles but is not explicit about climate issues.

Finding 9: Among the leaders, commitments on capital allocation are widespread

The most common climate-relevant policy commitments covering portfolio management relate to capital allocation to invest in renewable energy assets, reduce exposure to carbon-intensive assets (e.g. by excluding fossil fuels), or increase involvement in the rapidly growing green bond market.

Finding 10: Ceasing underwriting and investing in thermal coal is becoming a barometer of commitment to climate action

Due to recent high-profile campaigns and corporate failures in the coal sector, insuring, underwriting and investing in thermal coal assets has proved to be controversial for insurers. The survey results show that work needs to be undertaken on formalising approaches and creating a common set of guidelines related to exclusion of thermal coal assets.

Finding 11: The use of climate scenario analysis is still in its infancy

For asset owners, scenario analysis is a key tool given by the TCFD recommendations. However, the use remains in its infancy, and only 10% of the assessed insurers have undertaken scenario analyses, with a further 8% considering their approach.

TCFD RISK MANAGEMENT

Finding 12: Engagement with investee companies on climate-related risks is largely limited to improving their disclosures. Few insurers disclose escalation strategies with investee companies

The survey shows that 30% of insurers surveyed use engagement with companies as a risk management or mitigation tool. Promoting improved disclosure is more widespread than promoting actions, such as linking remuneration with climate targets. Few insurers have a clearly identified mechanism to escalate engagement.

Finding 13: There is a variety of approaches to portfolio and insurance risk analysis, with analysis of physical risks in response to weather events being more common.

Carbon footprinting is the most commonly reported technique used for portfolio risk analysis.

The analysis of value at risk from weather-related events was commonplace, but few insurers reported assessing their liability risk or other transition risks related to climate change.

TCFD METRICS & TARGETS

Finding 14: Metrics & Targets is a gap in the implementation of the TCFD recommendations.

Relative to other sectors, the insurance sector scored poorly on Metrics & Targets. This is supported by the finding of ShareAction's recent climate assessment of the European banking sector.

Finding 15 & 16: Less than a third of the largest insurers have measured their portfolio emissions

However, this represents an increase from 11% in 2017. Data quality and coverage remain a key barrier to developing effective decision-making tools in this area.

Finding 17: Low-carbon investment – On average 1% of AUM

56% of assessed insurers report they invested in low-carbon investments (LCI). Our data suggests the range of asset allocation for low-carbon investments varies significantly (from approximately 0% to 3.8% of total AUM). Based on the responses and public information, we calculate that the assessed insurers have allocated approximately 1% of their total internal assets under management to low-carbon investments. US and Canadian insurers have the most low-carbon investments, 23% of assessed insurers have pledged to increase their LCI allocation, but only 8% have set clear targets. EMEA leads on LCI pledges (52% of assessed insurers in EMEA, 15% in Asia Pacific, 3% in the Americas).

BAN KI-MOON'S INSURANCE SECTOR CHALLENGE

The last section of the report reviews sector progress against three of the challenges posed by UN Secretary-General Ban Ki-moon in 2016. Our data indicates that the industry is not on track to meet challenges 1 and 2 in the stated time frame. The challenges were:

Challenge 1: Measure carbon footprint of investment portfolios by 2020, and decarbonise investments;

Challenge 2: Double investments in sustainable energy by 2020;

Challenge 5: Develop auditable standards in the insurance industry that incorporate the Sustainable Development Goals.

RECOMMENDATIONS

Each section of the survey includes a number of specific recommendations. Key overall recommendations include:

Regulators must strengthen regulatory frameworks and mandatory requirements for climate-related disclosure,

Investors should prioritise engaging with the US insurance sector to promote better disclosure and management of climate related risks and opportunities,

To meet the challenges from Ban Ki-moon's and the goals of the Paris Agreement, insurers need to take a more comprehensive and bold stance on climate change,

To be fully compliant with the TCFD recommendations, insurers need bridge the gap identified in the survey around metrics & targets.