

INSURING A LOW-CARBON FUTURE

A practical guide for insurers on managing
climate-related risks and opportunities

SUMMARY REPORT

This document is a summary. For the full report, including a list of respondents, supporting examples, and case studies, please visit: www.aodproject.net/best-practice.

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EXECUTIVE SUMMARY



This report explores how 14 insurers from nine countries are proactively responding to climate-related issues across their investment, underwriting, and group-wide risk management practices. In addition to comprehensively surveying the current leading practice landscape, this report also explores common barriers faced by insurers in making progress on managing climate-related issues and presents a framework of practical building blocks relevant for insurers at early stages of introducing and developing climate strategies.

Our key findings are drawn from 14 in-depth interviews with insurers recognised for their progress in managing climate-related issues and based on a questionnaire developed with a small panel of industry experts. The respondents vary significantly by size, location, and business mix (covering general, life, and reinsurance).

The breadth of responses reveals a rich variety of innovative and creative approaches insurers are undertaking to promote climate awareness across their operations.

Our key findings are presented across four main sections:

1. Current leading practice landscape
2. Common barriers
3. Eight key building blocks for other insurers
4. Recommendations for key stakeholders

This report will be of interest to all stakeholders who have an interest in how the insurance industry is responding to climate change. It sits within a series of reports ShareAction/AODP has and will be publishing on climate-related risks in capital markets. This leading practice guide is a follow up to ShareAction/AODP's first leading practice guide, [Winning Climate Strategies](#), published in 2018.

PROACTIVE INSURERS ARE TAKING STEPS TOWARD:

1. Developing climate-supportive products and services
 2. Raising climate risk awareness among customers and communities
 3. Taking a holistic approach to climate risk management
 4. Exploring climate risks facing life and health
 5. Integrating climate science into risk models
 6. Building climate into investment strategies
 7. Driving collaboration on key climate issues
 8. Using TCFD to their advantage
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SURVEYING THE LEADING PRACTICE LANDSCAPE

This section explores the current leading practice landscape as practically demonstrated by 14 insurers recognised for taking a proactive response in managing climate-related issues across their underwriting, investment, and group-wide risk management practices. The following eight key findings are drawn from in-depth qualitative interviews. Our research and analysis find that even proactive insurers are at early stages of their climate strategy journeys with only a select few having already strategically integrated climate-awareness across all departments and business lines.

KEY FINDINGS



Key finding 1: Developing climate-supportive products and services

- Many respondents are developing a new generation of climate-supportive products and services. Some are incorporating eco-labelling while others are developing products intended to create climate-aligned behavioural change from their customers.
- Some are incorporating circularity into their claims processing by utilising repaired items and undertaking part repairs where possible.



Key finding 2: Raising climate risk awareness among customers and communities

- Insurers are educating customers and wider communities on how to prevent damage from climate-driven events and protect against life and health impacts.



Key finding 3: Taking a holistic approach to climate risk management

- Nearly all respondents have established some form of cross-functional initiative that focuses on climate issues, though many are at early stages.
- Many respondents are already sharing climate risk knowledge across the balance sheet, most commonly using physical risk expertise from the underwriting side to better understand similar risks on the investment side.
- The most advanced respondents are developing group-wide climate policies, fossil-fuel policies, and scenario analysis work.



Key finding 4: Exploring climate risks facing life and health

- While many proactive insurers with life and health businesses are already responding to climate-risks in their investment portfolios, only the most advanced are strategically focusing on better understanding these risks for their underwriting portfolios.



Key finding 5: Integrating climate science into risk models

- Proactive respondents upgrading their internal risk models or challenging their service providers to integrate forward-looking climate science and scenarios.



Key finding 6: Building climate into investment strategies

- Advanced respondents are publicly committing to align their investments with the goals of the Paris Agreement and to setting Science Based Targets for investors.

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- Many respondents are escalating climate in their company engagement in a range of innovative ways across both listed equity and debt.
 - Larger insurers with asset management businesses are building a new generation of climate themed investment products open to outside investors.
 - Advanced respondents are starting to scale their low-carbon investments across asset classes, in some cases over six per cent of their general accounts.
 - Some respondents are innovating to better understand climate risk in sovereign fixed income and incorporating multiple 2-degree scenarios into their scenario analysis work.



Key finding 7: Driving collaboration on key climate issues

- Proactive respondents are collaborating with peers and wider stakeholders on a range of climate-relevant themes including public policy, green investment opportunities, developing new tools and methodologies, and education programmes on climate risks.



Key finding 8: Using TCFD to their advantage

- Many respondents have used the [Taskforce for Climate-related Financial Disclosures](#) (TCFD) Framework to develop their strategic climate responses, while more advanced insurers are already publishing TCFD-aligned reports and incorporating the Framework into their company engagement.

COMMON BARRIERS FACING INSURERS:

1. Issues around climate-related data
 2. Weak demand for climate-supportive insurance products and services
 3. Capital requirements are yet to directly reflect climate risk
 4. Shortage of investable clean infrastructure opportunities
 5. Inconsistent climate progress within and between regions
 6. Lack of pressure from insurers' investors on climate issues
 7. Misaligned time horizons
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EXPLORING COMMON BARRIERS

This section explores seven barriers commonly faced by respondents in making progress on managing climate-related issues. These barriers are relevant for all insurers interested in how to best manage climate-related risks and opportunities.



Barrier 1: Data-related concerns

- Climate-data generally suffers from quality, availability, and frequency issues.
- There appears to be less climate-data for the underwriting side than for the investment side.
- For underwriting, there appears to be less climate-data for life and health than for general portfolios.
- Data for natural disasters and weather trends is largely based on observed data and does not yet fully capture forward-looking projections based on the latest climate science.



Barrier 2: Weak demand for climate-friendly insurance products and services

- Weak consumer demand for recently developed climate-supportive products and services have led some respondents to strengthen efforts in educating consumers on climate risks.



Barrier 3: Capital requirements are yet to directly reflect climate risk

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- Some respondents subject to the capital requirements required under Solvency II in Europe noted the current configuration does not incentivise long-term investments aligned with a low-carbon transition.



Barrier 4: Shortage of investable clean infrastructure opportunities

- A perceived shortage of clean infrastructure investment opportunities, including in emerging markets, has prompted some respondents to respond by engaging with policymakers.



Barrier 5: Inconsistent climate progress within and between regions

- Inconsistent progress on climate issues both across and within global regions was noted by respondents active in multiple countries as a challenge.



Barrier 6: Lack of pressure from insurers' investors on climate issues

- Some respondents noted a lack of pressure from their own investors on climate issues. They noted that stronger engagement from their investors would help drive internal progress.



Barrier 7: Misaligned time horizons

- Insurers tend to undertake risk assessments between 1-3 years while the full impacts of climate change are expected to unfold over longer time periods.

EIGHT KEY BUILDING BLOCKS:

1. Start the journey now – don't wait for the perfect tools
 2. Consider climate change from a risk perspective
 3. Start using TCFD
 4. Gain support from senior decision-makers
 5. Build a cross-functional climate working group
 6. Communicate climate awareness throughout the company
 7. Join collaborative initiatives
 8. Start challenging risk model providers
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EIGHT KEY BUILDING BLOCKS FOR INSURERS AT EARLY STAGES

Based on recommendations from our respondents, this final section offers a practical framework of eight simple, cost-effective, and impactful buildings blocks relevant for insurers at early stages of their climate strategy journeys.



Building block 1: Start the journey now - don't wait for the perfect tools

- The urgency of the climate crises requires all insurers to start taking immediate action and to recognise that data, tools, and methodologies will evolve over time.
- Insurers are encouraged to view their climate responses as a journey that is expected to intensify and become more sophisticated over time.



Building block 2: Consider climate change from a risk perspective

- Insurers are encouraged to perceive and respond to climate change as any with other material risk, such as cyber risk, where the industry has already taken strong action.



Building block 3: Start using TCFD

- The TCFD Framework helps stimulate internal dialogue and connected thinking on climate issues both within and across departments, while helping prepare for public reporting.



Building block 4: Gain support from senior decision-makers

- Gaining support from senior decision-makers (including at senior management and board levels) is critical for making progress on managing climate issues.
- Bringing in internal and external expertise on climate risks is helpful in gaining buy-in from senior decision-makers.



Building block 5: Build a cross-functional climate working group

- Cross-functional climate oriented initiatives (including working groups, taskforces, and committees) help connect departments and key decision-makers on how best to respond to climate issues.



Building block 6: Communicate climate awareness throughout the company

- Existing frameworks such as TCFD and the Sustainable Development Goals (SDGs) are helpful in communicating climate-awareness throughout the organisation.
- Appointing climate ambassadors at each organisational level helps to communicate climate issues in the most effective and appropriate way.



Building block 7: Join collaborative initiatives

- Joining a climate-related collaborative initiative helps provide access to latest information while building a valuable network.



Building block 8: Start challenging risk model providers

- Challenge third-party risk model providers to ensure they are adequately capturing forward-looking climate science and scenarios.

- Annually back-test risk models to ensure climate risks are sufficiently integrated.

RECOMMENDATIONS FOR KEY STAKEHOLDERS

To truly catalyse change in the insurance industry, supporting measures like the following need to be taken. These recommendations draw together insights from this research process to offer a selection of impactful steps key stakeholders can take to help drive more rapid change on the insurance industry's response to climate change.

STAKEHOLDER	RECOMMENDATIONS
Insurers	<ul style="list-style-type: none"> ▪ Challenge policymakers on carbon pricing, fossil-fuel subsidies, and mandatory TCFD-aligned disclosure. ▪ Invest more resources into understanding climate risks facing life and health. ▪ Challenge third-party risk model providers on integration of forward-looking climate science and scenarios. ▪ Consider impact, as well as risk.
Investors	<ul style="list-style-type: none"> ▪ Challenge insurers to develop more robust and holistic climate policies.
Policymakers	<ul style="list-style-type: none"> ▪ Review capital requirements to ensure insurers are incentivized to invest in the low-carbon transition. ▪ Support the introduction of higher carbon prices and phase out fossil fuel subsidies. ▪ Make TCFD-reporting mandatory for investors and corporates.
Customers	<ul style="list-style-type: none"> ▪ Challenge insurers on how climate awareness is integrated into products and services, claims processing, and climate risk education programs.

CONCLUSION

This guide reveals a variety of innovative and creative approaches insurers are taking to manage climate-related risks and opportunities. However, only the most advanced have developed group-wide formal climate policies that also signal ambition to align their business with the goals of the Paris Agreement. Promisingly, nearly all respondents have developed a cross-functional initiative around climate change, signalling that the industry is starting to progress toward formulating more sophisticated and holistic strategic responses to climate change.

A new generation of innovative climate-supportive products and services is being developed by proactive insurers, despite nascent consumer demand. This has prompted some insurers to increase their efforts in educating customers and wider stakeholders on climate risk by offering valuable advice in the areas of climate-related mitigation and adaptation.

As a sector, the insurance industry remains far away from meeting the goals of the Paris Agreement, with on average less than one per cent of proprietary investments allocated to climate-supportive opportunities, and over 60 per cent of insurers providing insufficient climate-related disclosure. Some have shown it is possible to scale low-carbon opportunities by allocating over six per cent of their general accounts. Most insurers are also escalating climate in their company engagement, not just in listed equity but also in corporate bonds, which should inspire other investors such as pension funds to become more active in engaging across both listed equity and debt portfolios.

Some insurers have responded to the challenge of integrating forward-looking climate science into their risk models by upgrading their internal models or challenging external service providers. And while climate-related data and methodologies are improving for general insurance portfolios, far less information is available in the areas of life and health, where many insurers are heavily exposed and more research is needed.

Insurers are already collaborating on a range of climate themes with a variety of stakeholders, though we see potential for stronger collaboration with policymakers on topics such as higher carbon prices, removing fossil fuel subsidies, and mandatory TCFD-aligned disclosure from companies.

Advanced insurers have embraced TCFD not just as a helpful tool in driving internal discussions and actions on climate issues within and across departments, but also as a company engagement tool and for improving public disclosure. With mandatory TCFD-aligned disclosure requirements becoming more likely across regions in the coming years, our framework of building blocks embraces the TCFD Framework as a valuable entry point for insurers to start their climate strategy journeys. However, all insurers are cautioned to remember that the end goal of their climate strategies should not simply be better disclosure, but a rapid decarbonisation of the global real economy.

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ABOUT AODP AND SHAREACTION

AODP, a ShareAction project, assesses, ranks, and engages the world's largest institutional investors on their approach to responsible investment. Through its public rankings and research, AODP provides much-needed transparency for beneficiaries, clients, investors, and stakeholders, while its engagement programme aims to drive positive behavioural change from investors. AODP's mission is to leverage the global financial system to tackle key global issues, with a focus on climate change, human rights, and biodiversity.

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ABOUT SHAREACTION

ShareAction (Fairshare Educational Foundation) is a registered charity that promotes responsible investment practices. ShareAction believes that responsible investment helps to safeguard investments as well as securing environmental and social benefits.

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