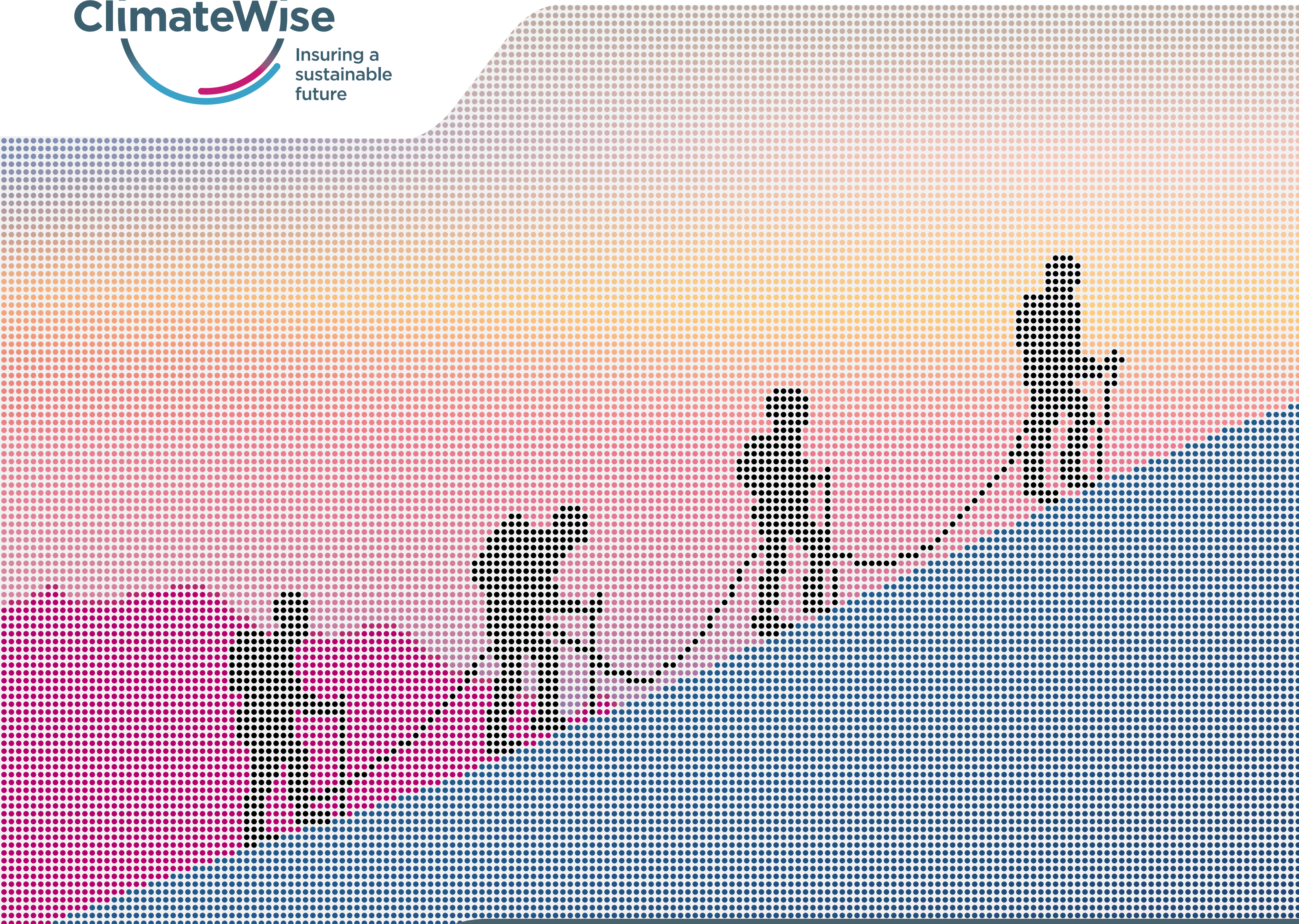
ClimateWise
Insuring a sustainable future



# The ClimateWise Principles Independent Review 2022

## Insurance as a long-term partner

UNIVERSITY OF CAMBRIDGE
INSTITUTE FOR
SUSTAINABILITY LEADERSHIP

## The University of Cambridge Institute for Sustainability Leadership

The University of Cambridge Institute for Sustainability Leadership partners with business and governments to develop leadership and solutions for a sustainable economy. We aim to achieve net zero, protect and restore nature, and build inclusive and resilient societies. For over three decades we have built the leadership capacity and capabilities of individuals and organisations, and created industry-leading collaborations, to catalyse change and accelerate the path to a sustainable economy. Our interdisciplinary research engagement builds the evidence base for practical action.

## ClimateWise

ClimateWise supports the insurance industry to better communicate, disclose and respond to the risks and opportunities associated with the climate-risk protection gap. This is the growing divide between total economic and insured losses attributed to climate change.

Representing a growing global network of leading insurance industry organisations, ClimateWise helps to align its members' expertise to directly support society as it responds to the risks and opportunities of climate change.

## The Centre for Sustainable Finance

Through a unique combination of deep industry collaboration, high-calibre research and exceptional education programmes, the Centre for Sustainable Finance helps financial institutions to play a leading role in building a more sustainable economy. This is achieved by convening groups of leading firms across banking, insurance and investment to develop tools that address industry barriers and knowledge gaps, setting ambitious examples of best practice for wider finance industry and equipping financial institutions to understand and improve their sustainability impact.

## Publication details



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Lead author (independent reviewer) disclaimer is on page 56 of this report and is an important message as by reading this publication, readers accept and agree to the terms.

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January 2023

# ClimateWise members 2022

ABI
Allianz
AON
ArgoGlobal
ascot
AVIVA
AXA
beazley
BRIT
canopius
Chartered Insurance Institute
CHUBB
CONDUIT RE
convex
DAC BEACHCROFT
esure GROUP
Ecclesiastical
FIDELIS
FLOOD RE
Gallagher
HISCOX
Howden Group Holdings
INIGO
Lancashire Insurance Group
Liberty Specialty Markets
LLOYD'S
MarshMcLennan
MS Amlin
Munich RE
QBE
RenaissanceRe
RSA
Sanlam
Santam
sedgwick
SIRIUS POINT
Swiss Re
THE HARTFORD
TOKIO MARINE HCC
TOKIO MARINE KILN
TOKIO MARINE NICHIDO
wtw
ZURICH

Note: organisations in their first year of membership are not required to produce a ClimateWise Principles report.

# Contents



Deloitte.

# Chair's foreword

## In 2022, I was proud to become the Chair of ClimateWise, as I believe that the challenges of climate change require urgent action that the insurance industry can help address.

As expert managers of risk and volatility, members of the insurance industry are in a unique position to understand and mitigate the potential impact of climate change on society and seek out opportunities to develop innovative products, such as nature-based solutions. Additionally, as managers of material investment portfolios, we can help facilitate and finance the transition to net zero.

I believe that ClimateWise provides a robust forum for the insurance industry to coordinate these activities in a collective response to climate change. For example, the ClimateWise Principles Independent Review is an important mechanism through which members share best practices and outline the ways that they are employing their risk management expertise and assets to drive forward the transition to a climate-resilient future. Given the essential value of industry coordination, we were delighted to see ClimateWise membership and member reporting reach an all-time high in 2022, as even more of the industry can benefit from the wealth of knowledge and learning shared by ClimateWise.

Importantly, the collaboration of ClimateWise members extends to other insurance industry forums where our members made meaningful contributions. It is exactly this kind of wider collaboration with society that the Principles review calls out as a key task for the industry. These forums include the Sustainable Markets Initiative Insurance Task Force, Insurance Development Forum's Global Risk Modelling Alliance and the Net-Zero Insurance Alliance. We look forward to deepening membership engagement across these bodies to develop partnerships and further facilitate innovation within the industry.

ClimateWise members are committed to understanding and managing the physical impacts of climate change as well as promoting societal resilience, a focus reflected in the recent papers 'The coming deluge: Scenario analysis for underwriting in a changing climate' and the UNEP FI collaboration 'Climate Tango: Principles for integrating physical and transition climate risk assessment with sectoral examples'. In addition, the ClimateWise paper 'Why nature matters: Nature-related risks and opportunities for insurance underwriting' explored the increasingly important theme of nature for the insurance industry, noting the need for data, methodologies and collaboration to enable action.

I am proud of the collective actions that the ClimateWise membership is taking to address the challenges of climate change. At the same time, we must recognise that additional decisive and rapid action is needed and therefore remain committed to advancing the insurance industry's response.

**Kevin O'Donnell**
Chair, ClimateWise
**President and Chief Executive Officer, RenaissanceRe**

# Executive summary

**The United Nations Environment Programme (UNEP) describes action on climate change to date as 'woefully insufficient' (UNEP, 2022). Current global commitments set us on an estimated warming pathway of 2.7 degrees Celsius above pre-industrial levels, and the current gap in climate financing required annually between now and 2050 to meet a Paris-aligned target sits at USD$4.3 trillion (Climate Analytics and NewClimate Institute, 2022). The need for more decisive and rapid action has never been clearer. The insurance industry must use its extensive risk management expertise and trillions of assets under management to both mitigate the risks and help facilitate the capital flows desperately needed to accelerate action on climate change.**

In the face of these enormous challenges, and in light of raised ambition across the insurance industry, ClimateWise is delighted to publish this report. In total, 37 members submitted a ClimateWise Principles Report for independent review this year – the highest ever number – with the average year-on-year member score increasing from 68 per cent to 69 per cent in 2022. Top-performing members are consistently exceeding 90 per cent, demonstrating meaningful progress against the current set of ClimateWise Principles and paving the way for future conversations about how to further enhance the ClimateWise Principles to ensure adaptation, competitiveness and application. As the insurance industry's role in climate action becomes rapidly more sophisticated and ambitious, the role of transparent and consistent reporting to support this role cannot be underestimated.

The challenges do not end with insurance organisations' own emissions and impacts. The clear themes in this year's review and report focus on the role of insurers, reinsurers and brokers as long-term partners and essential enablers of enhanced climate financing, climate resilience-building and climate solutions. Florida's Hurricane Ian, the US heatwave, estimated to have caused $20 billion in damage, drought in Europe and devastating floods in Pakistan are examples of disastrous climate impacts experienced across the world in 2022 (United Nations Office for Disaster Risk Reduction (UNDRR), 2022). Climate change is no longer just a long-term risk. The ClimateWise membership and wider insurance industry recognise the important role they can play as managers and mitigators of climate risk as well as leading facilitators and financers of the net-zero transition (CISL, 2021). Despite increasing signs of progress towards decarbonisation, the number of global insurers with net zero-aligned policies on thermal coal and/or oil and gas is still below 50 per cent; where there are policies in place, moreover, they often lack ambition and contain significant exceptions (ShareAction, 2022).

To support the needed change, the ClimateWise membership and broader insurance industry must both accelerate and expand the actions they are taking to shape their own climate trajectory and enhance their role as long-term partners to clients and the wider economy in the journey to a net-zero and climate-resilient future. This work includes encouraging the development and publication of detailed transition plans from insurers, reinsurers and brokers as well as ensuring products, services and tools meet the needs of society today and in the future.

The rapid expansion of the ClimateWise membership, which has now grown to over 40 members – an 18 per cent increase year on year – reflects the growing concern within the industry over the climate emergency. ClimateWise members continue to embed climate change in their governance and risk management frameworks, as evidenced by improved scoring against ClimateWise Principle 1 ('Be accountable'). The industry has also improved its embedding of climate change risk into its business practice. In line with the observations of the Taskforce on Climate-Related Financial Disclosures' (TCFD) 2022 Status Report, the insurance industry has continued to outperform other sectors in disclosure of these risk management processes (TCFD, 2022).

However, as the Bank of England (BoE) notes, there remains significant work to do to further embed climate change risk management practices into business operations (Prudential Regulation Authority (PRA), BoE, 2022). The findings from the PRA's thematic feedback on climate-related financial risk and the Climate Biennial Exploratory Scenario (CBES) exercise echo findings in this year's ClimateWise Principles Review report, particularly on embedding the outputs of scenario analysis and translating these into strategic business decisions. Nevertheless, the membership continues to demonstrate best practice across several key areas, with the vast majority of members comprehensively integrating climate change risk management and setting a record score of 77 per cent for Principle 3 ('Lead in the identification, understanding and management of climate risk').

Performance in Principle 4 ('Reducing the environmental impact of our business') also showed improvement, with members continuing to work to reduce their negative environmental impacts and disclose operational data on both greenhouse gas (GHG) and non-GHG emissions. Financed and insured emissions continue to be the most challenging for insurers to measure and disclose. While initial steps and pilot exercises are being carried out by some insurers to disclose insured emissions, they have been limited in scope and impact, due largely to a lack of consistent methodology and issues with data. The Partnership for Carbon Accounting Financials' (PCAF) recently published insured emissions standard will help firms accelerate measurement (PCAF, 2022) and enhance reporting across the industry.

ClimateWise members continue to participate in and lead industry forums as well as to engage policy makers on a local, regional and global scale. The delivery of a UK-based COP26 in Glasgow in December 2021, which featured private finance in a more meaningful way than ever before, was likely a key driver for the enhanced climate-related activities visible across the membership. Members participated and demonstrated concrete contributions in newly set-up organisations such as the Net-Zero Insurance Alliance (NZIA), Glasgow Financial Alliance for Net Zero (GFANZ) and Sustainable Markets Initiative (SMI) Insurance Task Force (ITF).

As outlined in this year's ClimateWise whitepaper, *Modelling it all: Secondary Perils in a warming world,* the industry still grapples with significant challenges with reliable, consistent and accurate data for asset and underwriting portfolios (CISL, 2022). Lack of agreement over tools, frameworks and data sharing continues to be a barrier to progress to long-term strategic thinking and action. Work on assessing the impact of broader sustainability issues, such as nature degradation, biodiversity loss and the social implications of a 'just transition', remain important issues, but action is still relatively nascent for the industry and membership, again in part due to an absence of the requisite data and methodologies.

Supporting clients and customers to improve their resilience to physical and transition risks over the short, medium and long term presents significant operational and strategic challenges for the industry whilst also representing a major opportunity. Members are evidencing key leadership roles, spurring product innovation and delivering engagement across a wide variety of stakeholders on climate risk. That said, and as we outline in our report, there is a need for more proactive, long-term strategic thinking about the insurance sector's wider societal role as a partner for change and what this means for members' businesses.

**Our six key focus areas outline where the membership and the wider industry should continue to accelerate the long-term change required by their customers and society at large. By doing this, the membership can build on recent progress to help solidify its supporting and enabling role in relation to customers, policymakers and wider society. The six focus areas are accompanied by four key actions for the industry to help accelerate its role as a partner in the energy transition.**

### Six key focus areas

**1)** External stakeholders are shaping the agenda

**2)** Net-zero targets and transition plans

**3)** Internal structures and operating models

**4)** Investment processes and stewardship

**5)** Transition risk resilience

**6)** Product and risk management solutions

### Four actions for industry

**1) Accelerate** climate action and increase stakeholder engagement.

**2) Overcome** implementation barriers and embrace decision making with imperfect information and lack of available data.

**3) Fully integrate** ESG reporting frameworks and embed them into the business and long-term strategic plans.

**4) Increase broader understanding** that climate change, nature loss and social challenges need to be addressed in a systemic manner in order to maximise potential synergies and cost efficiencies and avoid unintended consequences of tackling issues in isolation.

# From a sprint to a marathon: Insurance as a long-term partner

**ClimateWise members recognise the importance of setting net-zero targets and introducing meaningful strategies to deliver the critical action needed on climate change. While progress has accelerated, the complex, systemic and immediate demands of the climate crisis require consistent improvement at pace from all stakeholders in the insurance industry, working individually and collectively to support a rapid and just transition to net zero.**

**To support this change, the ClimateWise membership and broader insurance industry must accelerate and expand not only the actions they are taking, but also their role as long-term partners to the wider economy in its journey to a net-zero and climate-resilient future. Doing so includes developing the detail behind the insurance industry's own transition plans and ensuring products, services and tools meet the needs of society.**

UNEP's latest assessment of the efficacy of current climate action in meeting the temperature goals of the Paris Agreement described efforts as 'woefully insufficient' (UNEP, 2022). Only 'rapid transformation of societies' will lead to progress on cutting carbon emissions and limit the worst impacts of climate change. Ensuring a rapid and just transition, in line with the UN Sustainable Development Goals, presents a significant challenge for society (Just Transition Centre, Organisation for Economic Co-operation and Development (OECD), 2017). The ClimateWise membership and wider insurance industry recognise the important role they can play as managers and mitigators of climate risk and facilitators of the net-zero transition (CISL, 2021). While insurers have responded to initial calls to action from regulators and continued to make progress in identifying and managing climate risk in their own balance sheets, the membership and wider industry must accelerate action in supporting customers and wider society in the net-zero transition.

Despite members leading the way in engagement and product innovation, there is a need for more proactive long-term strategic thinking about the insurance sector's wider societal role as a partner for change and what this means for members' businesses. This thinking must be focused on opportunities created by the transition, risk management solutions and promoting resilience to the risks, as opposed to short-term annual renewal cycle thinking. The industry has increased engagement on climate action with governments, regulators, data providers, academic institutions and other financial market participants. This engagement needs to evolve to a more forward-looking view that embraces continuous change and enables the long-term fulfilment of its role as society's risk manager (European Insurance and Occupational Pensions Authority (EIOPA), 2021).

Supporting clients and customers to improve their resilience to physical and transition risk over the short, medium and long term while simultaneously overseeing the largest capital reallocation in history, requiring over $3 trillion annually, presents significant operational and strategic challenges for the industry (BloombergNEF (BNEF), 2022). We identified six key focus areas where the membership and wider industry should continue to accelerate the long-term change required by their customers and society at large.

1) **External stakeholders are shaping the agenda –** The current cycle of climate action being taken by the insurance industry is being driven by actions of external stakeholders, such as regulators and investors. These actions have largely centred on specific topics, such as scenario analysis and stress testing, developing underwriting exclusions or setting long-term decarbonisation targets. Although such initiatives have driven progress in market-wide action, there is a need for leadership and more proactive and internally driven action which recognise the wider role that the insurance sector can play in addressing climate action. This includes the industry's own transition plans, driving action through policy engagement, and ensuring products, services and tools meet the needs of society.

2) **Net-zero targets and transition plans –** A significant proportion of the membership has set net-zero targets, but few have accompanied these targets with a credible transition plan that outlines how they intend to engage with customers on their decarbonisation pathways.

3) **Internal structures and operating models –** We continue to see encouraging examples of members making shifts to internal structures, such as appointing Heads of Sustainability. Wider development of operating models geared towards client-centred engagement could be developed.

4) **Investment processes and stewardship –** While some members are increasingly recognising the need to engage investees and asset managers as long-term partners in the transition, there is room for further engagement from the membership and wider industry.

5) **Transition risk resilience –** The industry is supporting clients in improving their resilience to direct physical climate risk, but more needs to be done to help clients drive the energy transition and to improve the long-term transition resilience of ClimateWise members and their clients.

6) **Product and risk management solutions –** Although members continue to develop climate-related products and risk management solutions, there are opportunities for more strategic approaches by developing long-term partnerships with customers to enhance their climate resilience.

## Insurance as a long-term partner: Six key focus areas

### 1) External stakeholders are shaping the agenda

The membership has increased engagement with broader stakeholders, formed partnerships and alliances and driven leadership efforts on climate action. COP26 in Glasgow at the end of 2021, which featured a greater private finance presence than ever before, was a key driver for many climate-related commitments and activities for the membership. Over half the membership explicitly referenced COP26 or listed engagement activities that took place on the margins of the summit. AXA XL used the event to announce extensions to its underwriting and investment oil and gas policy exclusions, implement reductions in high-impact areas such as unconventional exploration and intensify its investments in green and low-carbon energy. Zurich Group sponsored the World Climate Summit, on the margins of COP26, to discuss the role of the private sector and the insurance industry in accelerating climate change efforts in line with the UN Resilience and Adaptation agenda. Aon participated in the Green Horizon Summit at COP26 and shared perspectives on key industry topics including financing net zero, modelling climate risks, disaster resilience and the role of insurance in mitigating and managing climate risk. Several members were heavily involved in the Insurance Development Forum (IDF), a public–private partnership working to drive the role of the insurance sector in resilience and adaptation with which ClimateWise is proud to have collaborated many times, including on the Global Risk Modelling Alliance (GRMA) work launched at COP26. This programme sees the IDF partner with the Ministers of Finance from the V20 Group (Vulnerable 20 Countries) to bring much-needed open data, technology and practical learning through the co-development of tools and risk finance projects with climate-vulnerable countries (The GRMA, 2022). These actions are encouraging, and they demonstrate the scale of the action the insurance industry is now able to take within the climate agenda. The ClimateWise membership must build on these activities to develop long-term climate-related strategies and ensure they are effective in prompting the change still urgently needed.

Regulators, also COP26, had a key role in driving the activity of the membership. The BoE's Biennial Exploratory Scenario (CBES) exercise directly captured some members' stress tests while others voluntarily performed scenario analysis based on the CBES parameters (see box). In many instances, results from scenario analyses showed that industry is still focusing on its own financial performance, with responses centring on re-pricing or withdrawal of cover in highly exposed areas, as opposed to forming long-term strategies to partner with clients on their transition pathways and governments to build wider societal resilience (BoE, 2022).

> "Ask not what the economy can do for insurers – ask what insurers can do for the economy"

**Speech by Anna Sweeney, PRA**

Regulators continue to play a key role in driving the wider sustainability agenda forward while also emphasising the importance of insurers' unique role in the transition to net zero. So far, regulators have worked with insurers to develop their climate risk management practices, including setting regulatory expectations in relation to climate governance and risk management practices and promoting voluntary and, in some cases, mandatory disclosure requirements.

Regulators also continue to work with the insurance industry to assess the nature and extent of climate risk exposures through stress and scenario testing. Several regulators globally have launched or are in the process of launching industry-wide climate stress tests for insurers. Most notably, the BoE concluded its CBES for banks and insurers earlier this year (see key findings in box 1). While several members of ClimateWise participated in the exercise or have since performed CBES-aligned scenario analysis, responses focused on short-term actions (e.g., annual re-pricing), and few considered the longer-term implications on profitability or consumers.

Insurers can address climate change in several ways, including through responsible investment, net zero underwriting and sharing their expertise in risk management with other stakeholders more generally. Insurers should collaborate with the industry and public sector to come up with innovative risk management solutions and product designs to help close the insurance protection gap and achieve fair outcomes for consumers. By doing this, they would not only protect and improve the reputation and long-term value proposition of the insurance industry, but would also enhance their position as long-term partners in the transition to net zero.

Through their work, regulators have a key role to play in helping the insurance industry continuously re-assess its climate exposures while focusing minds on the need to address some of the most important challenges in this area. As climate litigation is becoming a growing phenomenon across the financial services industry, as is insurers' direct exposure to litigation through liability lines of business, we expect liability risk to be the next area in which regulators work with the industry to control and manage exposures. The UK's PRA has already indicated it will explore the implications of contract certainty and the size of possible risks in its next insurance stress test. This should be a welcome development opportunity for our members to work together with the PRA to explore a new and relatively unexplored area of climate risk.

## Box 1: CBES – Key findings for insurers (from Stefan Claus' speech)

- Insurers lacked **comprehensive and high-quality climate data**, including information on corporate emissions across value chains and geographical corporate asset location data.
- Many insurers were quite **heavily reliant on third-party models** to complete their CBES submissions, and some firms struggled to adapt these models to the CBES.
- Some insurers faced difficulty **in identifying and aggregating liability policy exposures** according to specific contract wording and industry sector classifications.
- Insurers generally sought to **reduce exposures, use reinsurance extensively or use re-pricing** as responses to physical and transition risk scenarios.

Voluntary action undertaken by members has influenced regulatory approaches to climate risk supervision. Similarly, member participation in formulating market guidance and industry initiatives has helped the membership set or embed further climate action. Seven members signed up for the SMI ITF Global Pledge for sustainable supply chains, agreeing to help suppliers set meaningful decarbonisation targets, measure and report the carbon footprint of supply chains and work to tackle supply chain carbon hotspots (SMI, 2022).

The Association of British Insurers (ABI) updated its Climate Change Roadmap, which sets out five key actions to maximise the role of the insurance and long-term savings sectors in tackling the climate change challenge as well as publishing industry guidance on greener supply chains. It was also named an official 'accelerator' for the UN's Race to Zero campaign, which aims to encourage non-state actors including companies, cities, regions and financial and educational institutions to take rapid action to reduce emissions in line with the Paris Agreement (United Nations Framework Convention on Climate Change, (UNFCCC)). Lloyd's guidance for managing agents on underwriting exclusions for new thermal coal-fired plants, thermal coal mines, oil sands and Arctic energy exploration activity continued to impact underwriting strategy for syndicates and specialty carriers (Lloyd's, 2021).

These industry initiatives perhaps came closest to formulating a strategic view of how insurance can support the broader economy as a long-term partner. However, to develop fully embedded strategies, individual firms and members must develop the capabilities to help form their own view on their role in supporting clients in the transition as opposed to reacting to external drivers for change.

## 2) Net-zero targets and transition plans

The membership continued to set decarbonisation targets aligned to the Paris Agreement. Many members have set their own net-zero targets across operations and investments. RSA Insurance Group plc committed to a net-zero operational target by 2050, including an accelerated goal to halve corporate emissions by 2030 from a 2019 baseline. DAC Beachcroft committed to net zero by 2040, with a near-term science-based target (SBT) in line with a 1.5 degrees Celsius climate pathway. Ecclesiastical helped improve its year-on-year performance by setting a net-zero target for the entire Group by 2040, including a target to reduce direct emissions by 20 per cent over a three-year period.

Others joined initiatives that required signing up to decarbonisation targets. Ten ClimateWise members have signed up to the NZIA, which is a group of 29 of the world's largest insurers, representing more than 14 per cent of global premium volume, who have committed to transitioning their underwriting portfolios to net-zero GHG emissions by 2050 (NZIA, n.d.). Members participated in the NZIA's work with PCAF on developing an emissions accounting methodology for underwriting portfolios, which will help drive further underwriting decarbonisation targets in the industry (PCAF, 2022).

With over 130 countries and 90 per cent of the world's GDP now covered by net-zero targets, the need for credible transition plans has never been greater (GFANZ, 2022). Assisting customers on their own transition requires a clear strategic plan on how members will meet the net-zero targets they have set. These plans will also increasingly need to be disclosed under ESG reporting frameworks, which are coalescing around key standards such as those developed by the International Sustainability Standards Board (ISSB, 2022).

Few members of the insurance industry and wider financial services sector have set out granular transition plans, which should be a priority action for all. Recent guidance for financial institutions from GFANZ could accelerate progress and guide members on articulating their own plans. Aviva set out its own net-zero transition plan, which included a commitment to decarbonise its investment and underwriting portfolios by 2040. It clearly identified a need to engage customers within its 'spheres of influence' as part of a long-term transition plan (see box overleaf) (Aviva, 2022). By publishing its transition plan, Aviva demonstrated the long-term strategic thinking required to assist the broader economy on the net-zero transition.

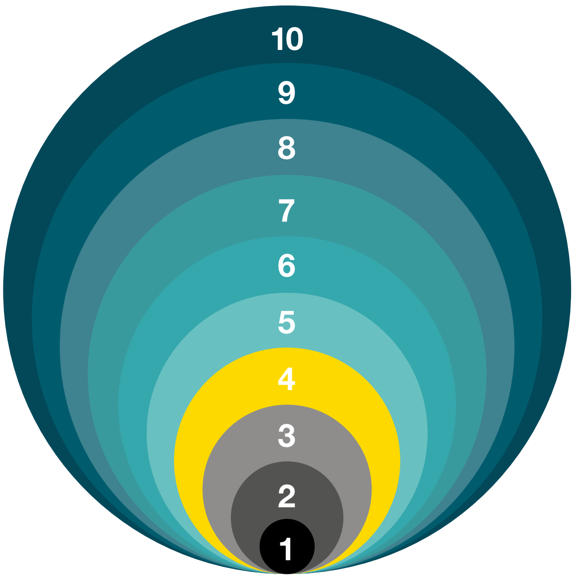
# Using our influence to help deliver Net Zero

A single company or even a group of companies cannot make the world Net Zero. This will take action from governments, regulators and other actors who help shape global economies and financial markets. We also need to bring our customers along with us, and make sure that our actions reflect their interests and values so that we have a just transition to Net Zero.

At Aviva we're fully aware that our role in fighting climate change goes beyond tackling the emissions of our own investments, operations and underwriting portfolio, therefore we are relentlessly campaigning for systems-level change so that the whole financial system works towards a sustainable future. We're using our influence as a large financial institution to push for positive change that will deliver a more secure and stable future for our customers and their families.

And we'll make sure to leverage our influence potential at its fullest, exerting it in multiple ways and reflecting the different relationships we hold with our key stakeholders. We use the concept of 'spheres of influence' to illustrate this. On the following pages we provide more detail of our calls to action for our key stakeholders.

## Spheres of influence diagram




**10. Planetary boundary** – We are advocating for planetary considerations within regulation and financial markets.

**9. Civil society** – Advocating for change will gather attention, civil society can demand more from governments and policy setters to implement change.

**8. International financial architecture** – Advocate for systemic rewiring of the IFA to provide specific mandates to all regulators and standard setters to play their role in creating and stewarding an international financial transition plan for Net Zero.

**7. Sovereign debt** – We work with sovereigns to encourage participation in international alliances such as the NGFS.

**6. IFI Issuers** – Aviva can partner with issuers to provide multilateral development funding for climate action projects.

**5. Real asset and infrastructure** – As an investor in and insurer of infrastructure we can support green innovation as well as excluding fossil fuel projects from our investments and insurance boundaries.

**4. Investee companies** – We can use our influence as shareholders to vote for climate action. As a major insurer we can choose which activities we insure and influence our peers to follow suit.

**3. Influence on our peers** – Within the alliances we operate we can collaborate and seek to influence companies we invest in and policy decisions.

**2. Our business and its influence** – Aviva can influence the suppliers and use our purchasing power.

**1. Our customers, clients and end beneficiaries** – We provide products and services to renewable projects and low carbon products like electric vehicles. We can use exclusion lists and choose not to work with carbon emitters who are not transitioning.

Aviva's 2021 first release of its Climate Transition Plan identified that providing products and services to assist it on its transition was a key element of its plan.

## 3) Internal structures and operating models

Some members responded by creating new positions or appointing Heads of Climate Risk or Heads of Sustainability to help implement and monitor strategic plans. MS Amlin Underwriting Limited (MS Amlin) created a new role of Head of Sustainability and ESG in 2021. RenaissanceRe created a new role of Global Head of Climate and Sustainability Strategy, responsible for executing its climate and sustainability underwriting strategy in partnership with its existing corporate ESG team. Responsibility for Allianz's sustainability agenda shifted to a new Global Sustainability function headed by the Chief Sustainability Officer, who reports to the Chairperson of the Group Sustainability Board. Canopius also appointed a Head of Sustainability and is in the process of appointing a Head of Responsible Underwriting, while other members expressed plans to create similar positions in the forthcoming year. Others updated governance structures to take account of recent strategic goals on climate change. Aon established a Net Zero Committee, jointly chaired by the Chief Procurement Officer and Head of Investor Relations and ESG, to develop short-, medium- and long-term strategies to support firm sustainability and the commitment to net zero by 2030. AXA XL appointed a Head of Climate responsible for setting and managing AXA XL's strategy and work in relation to climate change.

Members also increasingly recognised the long-term implications of climate action by incorporating targets into long-term remuneration for senior executives. Ten per cent of Aviva's 2021–2023 Long-Term Incentive Plan is based on ESG metrics, split across separate measures (5 per cent for climate metrics and 2.5 per cent each for two diversity and inclusion metrics). The climate-related metric relates to a percentage reduction in carbon intensity of shareholder assets and is set to increase for 2022–2024. Other members who included references to aligning variable remuneration to climate action were Munich Re, RSA, Sanlam Group, Swiss Re and QBE.

While changes to governance structures and the integration of climate action into variable remuneration demonstrate progress, further action is required by firms to demonstrate their long-term role as partners in the net-zero transition. Current targets and operating models are directed at reducing individual climate risk exposure and the carbon intensity of investment and underwriting portfolios. Firms could consider establishing customer engagement targets, underwriting strategies and operating models which emphasise long-term partnership and enhance customer transition resilience. Doing so will impact all aspects of the business. Firms can begin mapping out the implications on a function-by-function basis but should also be transparent in their identification of interdependencies between all internal stakeholders.

## 4) Investment processes and stewardship

Investors are key stakeholders with the power to drive long-term climate-related strategy. The membership, either through asset management arms, as holders of large amounts of capital or via engagement with third-party asset managers, has a significant role to play. Members are increasingly integrating investors' ESG and stewardship considerations into their climate policies.

Swiss Re implemented an engagement framework for investments to support investee companies to strengthen climate resilience and implement long-term responsible investing goals. It set targets for engagement frequency and desired outcomes on topics including emissions reductions, developing climate risk strategy and climate-related financial disclosures. As a result, it exercised 97 per cent of its voting rights of its listed equity assets. Investee engagement is also a pillar of Zurich's climate-related investment approach, which includes a top-down campaign to encourage investees to set net-zero targets.

Members are also increasing their offering of other climate-related investment services. Aon offers investment services covering ESG integration, engagement and stewardship, climate change and impact investing. WTW's Climate and Resilience Hub developed a proprietary Climate Transition Value at Risk (CTVaR) methodology to help clients understand and measure climate investment transition risk. Others directly recognised the need to invest in transition opportunities. EdenTree launched two new funds designed to capture opportunities arising from transition: a Green Future Fund, which invests globally in companies which provide global sustainable solutions, and a Green Bond Fund, which seeks to deliver measurable positive environmental and social impacts. With over $36 trillion in global assets under management, the insurance industry and membership have a key role enabling an economy-wide transition to net zero through their investments (UNEPFI, 2021). While progress has been made, there is a need for further engagement from the industry with investees and customers over medium- to long-term horizons in order to help deliver the key infrastructural and climate finance requirements needed for a net-zero transition.

## 5) Transition risk resilience

Engagement with customers is a key lever for the industry to drive real change in the wider economy (UNEPFI, 2022). The membership has continued to develop educational tools and support for customers and clients to both educate them and help them assess their own levels of physical climate risk. RSA's web-based RED (Risk Engineering Database), for example, allows clients to manage risk engineering data, including physical climate risk, and to undertake risk profiling, modelling and tracking of recommendations across different geographies. AXA XL's Environmental Sensitivity Tool uses machine learning algorithms combined with industry- and facility-level customer data to assess the exposure to individual environmental liability risks of individual sites or across entire property portfolios. On the investment side, Aviva's ESG Profiling Tool on its Adviser Platform allows clients to see the ESG and climate risk impact of their investments.

Flood Re Limited helped fund the Environment Agency's (EA) Property Flood Resilience Pathfinder project for the Oxford–Cambridge Region, which helps raise awareness of climate change impacts and the need for flood resilience. It ran a 'Road to COP26' tour of flood risk areas to highlight the need for property flood resilience and adaptation.

Building on recent progress in helping customers assess their climate risk, the membership and wider industry could go further and develop partnerships, solutions and tools that go beyond physical risk resilience and recognise the need to support customers in their long-term planning for the net-zero transition. Examples of progress include Allianz Risk Consultancy, which systematically engages with highly exposed customers such as major coal companies and provides risk management solutions and support centred on material risks and help establish the transition away from coal. Additionally, AXA XL created a 'Climate Catchup' series which involved interviewing corporate clients to identify areas where it could engage with them on their climate strategies and transition plans. Although such initiatives are in their early stages, they demonstrate the types of communication and engagement needed for insurers to be long-term partners in the transition.

## 6) Product and risk management solutions

The membership has continued to develop climate-related products and risk management solutions focused on physical perils. AXA XL's Coastal Risk Index, launched during the year, models current and future flood hazards resulting from climate change and integrates the protective benefits of coastal ecosystems into risk models. WTW designed and placed the world's first sovereign debt 'catastrophe wrapper' for the Belize government to help it refinance its sovereign debt under The Nature Conservancy's Blue Bonds for Ocean Conservation programme. The parametric policy, for which other ClimateWise members help provide capacity (see Principle 3 case study), provides insurance protection to cover Belize's loan repayments after hurricane events and aims to strengthen resilience to climate shocks, which have previously triggered credit rating downgrades.

Flood Re Limited, working closely with the ABI and Defra, launched its Build Back Better initiative, an innovative scheme under which those affected by flooding will be able to claim up to £10,000 as part of a flood claim to pay for the installation of flood resilience measures. Liberty Specialty Markets (LSM) partnered with Marsh McLennan to develop an insurance facility to provide up to $300 million capacity for green and blue hydrogen energy projects. The facility covers construction and operational phase property damage risks, as well as marine cargo, business interruption, general third-party liability and contingent delay in start-up. Zurich's Climate Change Resilience Services offer a wide variety of products, tools and risk management solutions to help customers identify and mitigate climate change risks.

While these activities are encouraging, members could aim to take longer-term strategic views on product development geared around enhancing client transition resilience. Doing so involves recognising insurers' role in de-risking investment in new climate technologies and business models, reducing costs of capital and driving the innovation required for the green energy transition (CISL, 2021). MS Amlin's partnership with Insurtech Altelium, to launch a battery energy storage system construction insurance solution, is a key example of the innovative ways insurance can overcome barriers to the adoption of new technologies without historic claims data. Similarly, RSA is supporting green technology in the rail industry by working with firms looking to use battery-operated and hydrogen trains to reduce the need for diesel. RSA has also committed to setting a minimum threshold for renewable energy to make up 50 per cent of its energy underwriting portfolio, which will drive further partnerships with renewable technology providers and the development of new products.

## Conclusion

The industry has developed risk management solutions, integrated climate risk into operating structures and demonstrated leadership at the highest global level on the importance of action on climate change. Voluntary reporting has evolved into operational action, and while there are encouraging examples of action and improvements across the seven ClimateWise Principles, as can be seen in the next section of this report, opportunities for further progress remain. We have identified four key actions for the industry to help accelerate its role as a partner in the energy transition.

1) **Accelerate climate action** across all areas of the business and increase engagement with stakeholders across society to provide the risk management solutions customers and societies will need in the energy transition.

2) **Overcome implementation barriers** caused by data availability, agreement on sustainability definitions and scenario analysis parameters so as not to delay further action. The immediacy of the climate crisis means firms must accept the need to operate in environments of high uncertainty and make strategic decisions with imperfect information.

3) **Align with and integrate developing global approaches** to ensure consistent, comparable and available data. ESG and voluntary reporting frameworks have begun to coalesce around a global set of recognised standards under the ISSB. Members and the wider industry must fully integrate their requirements and embed them into the business. Only then can the industry use them as a basis to develop long-term strategic plans centred on engagement with wider stakeholders.

4) **Increase broader understanding** that climate change, nature loss and social challenges need to be addressed in a systemic manner in order to maximise potential synergies and cost efficiencies and avoid unintended consequences of tackling issues in isolation.

**Climate action poses a long-term and society-wide challenge requiring broad action that has, to date, been 'woefully insufficient' (UNEP, 2022). The ClimateWise membership must build on recent progress to help solidify its role as a long-term partner to customers, policymakers and the wider society. It must use its extensive risk management expertise to help the broader economy to manage and deliver the system-wide changes that climate action demands.**

# ClimateWise Principles 2022 Annual Review

**The annual assessment of the integration of the ClimateWise Principles across members' business activities is based on members' reporting progress, independently reviewed by Deloitte. It highlights the overall progress being made by the ClimateWise community and provides ClimateWise members with individual feedback, scores and rankings that allow them to benchmark progress against their peers and inform the development of members' responses. The ClimateWise Principles provide an industry-standard framework for TCFD disclosures while also setting leading ambitions on wider public policy engagement, action on climate change and building societal resilience across the industry value chain.**

Principle 1
**Be accountable**
1

*See page 22*

Principle 2
**Incorporate climate-related issues into our strategies and investments**
2

*See page 27*

Principle 3
**Lead in the identification, understanding and management of climate risk**
3

*See page 31*

Principle 4
**Reduce the environmental impact of our business**
4

*See page 36*

Principle 5
**Inform public policy making**
5

*See page 40*

Principle 6
**Support climate awareness amongst our customers / clients**
6

*See page 44*

Principle 7
**Enhance reporting**
7

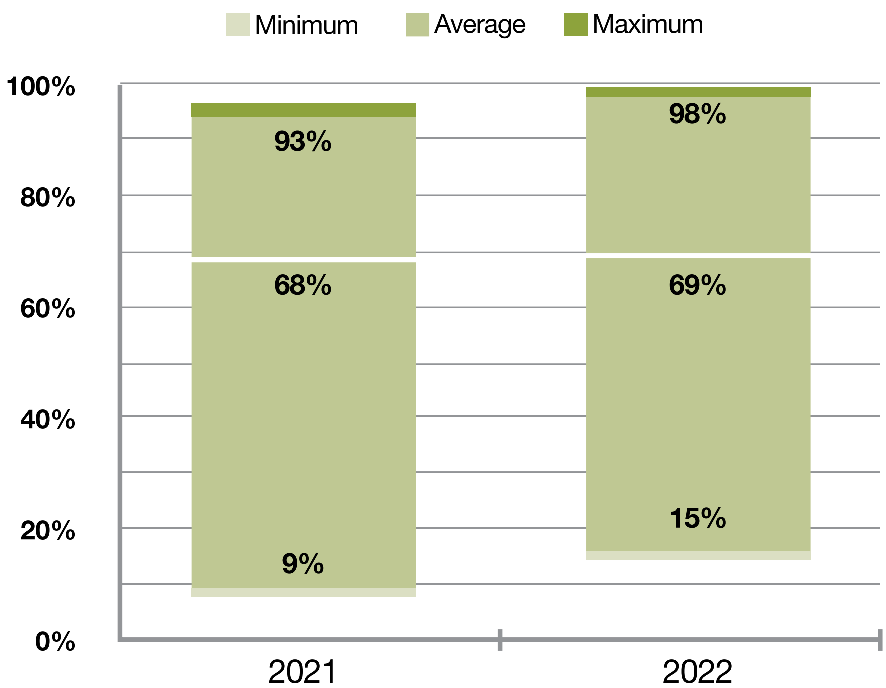
*See page 49*

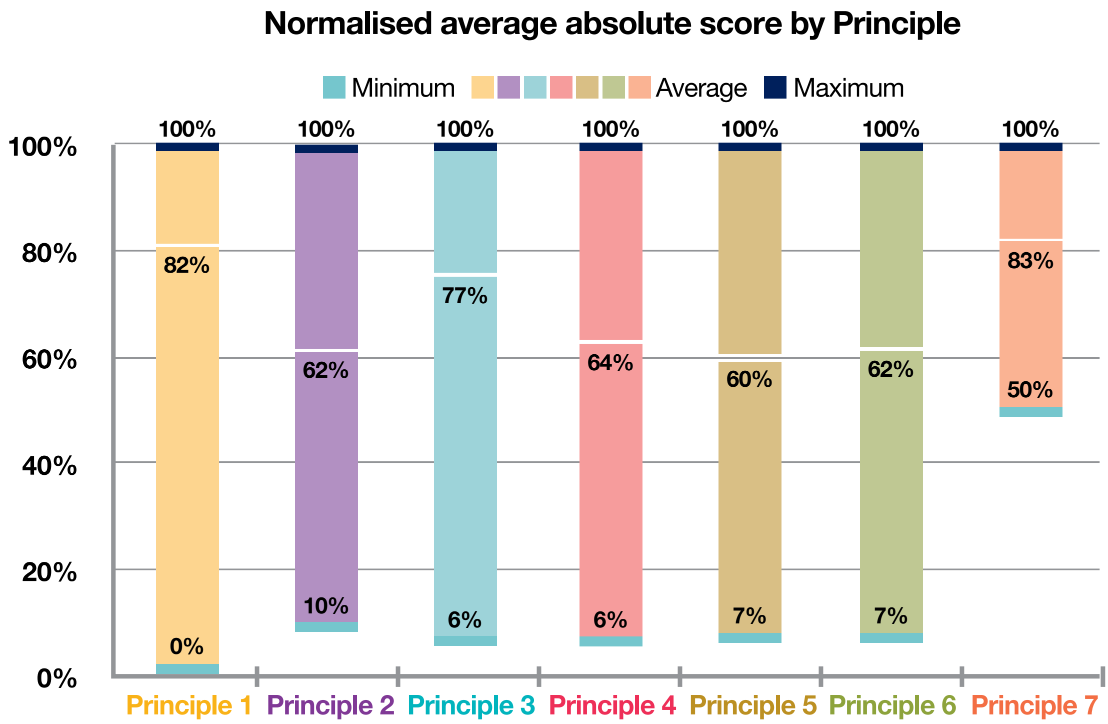
# The ClimateWise Principles: member progress

**This was an important year for members to further embed climate action and build on the momentum COP26 generated across financial services. The size and diversity of ClimateWise membership continued to grow, and the membership increased to over 40 members. This year also saw Lloyd's managing agents submit reports individually rather than under an overall Lloyd's (Corporation and Market) banner. The membership continued making progress against the Principles, with 2022 seeing a year-on-year rise in average member score from 68 per cent to 69 per cent. ClimateWise members built upon the strong progress made last year and continued to embed climate-related risk management activity across all areas of their businesses.**

The following review relates to ClimateWise submissions made by members in early August 2022. In line with ClimateWise guidance, reporting years generally relate to the 2021 calendar year but can follow a member's financial year or similar. Appendix 1 provides a detailed description of members' performance against each of the Sub-Principles. Appendix 2 provides further detail on scoring methodology. Appendix 3 provides an anonymised member ranking, and Appendix 4 provides the score distribution for the membership.

**Member average group scores over time (2021-2022)**






The year-on-year membership performance improved across Principles 1, 3 and 4, while Principles 2, 5 and 6 saw minor declines in scoring of around 1–2 per cent. The decline was, in part, due to an adjustment to the calculation methodology that saw Lloyd's managing agents submit individual reports as opposed to submitting under the Lloyd's banner.

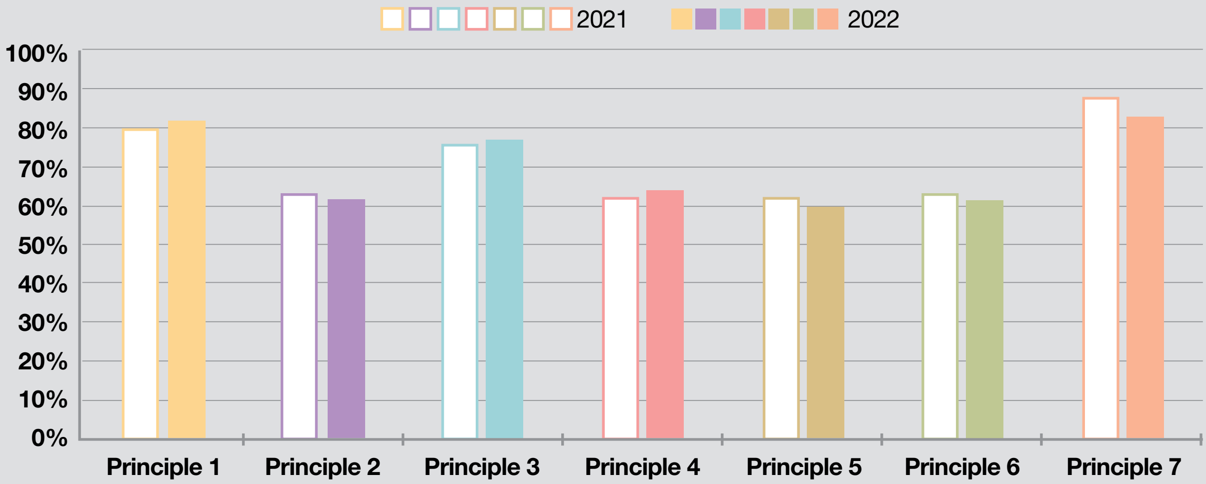
In line with previous years, Principles 1 and 7 had the highest overall average, with 82 per cent and 83 per cent, respectively, showing that members continue to have robust governance structures and are willing to disclose against all elements of the ClimateWise Principles and include these elements in their annual reports.

In line with trends seen in previous years, Principles 3 and 4 showed improvement, demonstrating that members are continuing to embed climate risk into their organisations and reduce the environmental impacts of their business. A record number of members scored full marks against at least one of the Principles.

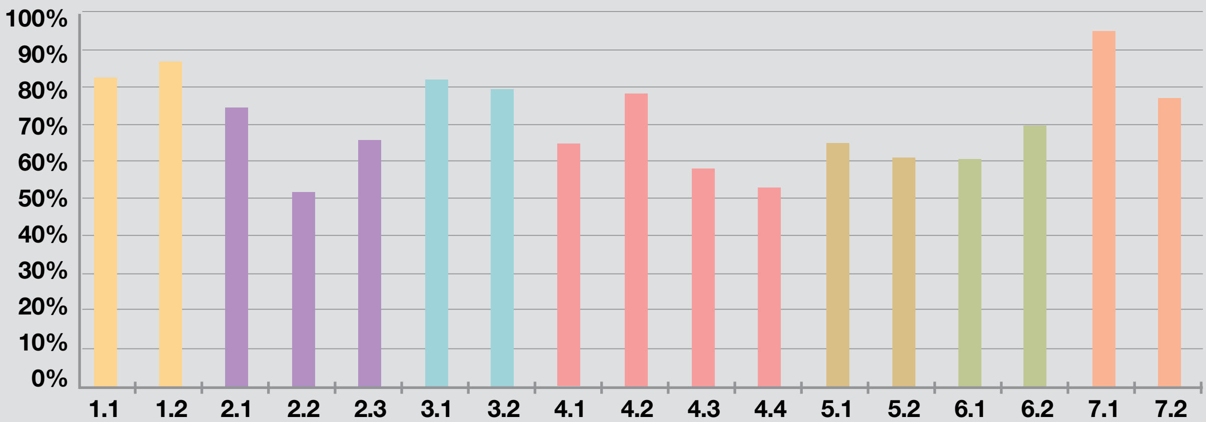
The membership improved scores across the board. Over 70 per cent of the members who submitted reports and were included in the public benchmarking last year saw improvements in their overall weighted scores. Higher performing members increased their scores, with five members scoring over 90 per cent, up from one member in the previous year. Some 68 per cent of members scored over 60 per cent, up from 56 per cent in the prior year. As a result, the median membership score rose from 61 per cent to 71 per cent.

Scoring against demonstrating planned activities (DPA) improved across most Principles. Members who performed well and scored both available marks did so by clearly demonstrating progress against planned activity in the previous year.

## Normalised average absolute score by Principle over time (2021-2022)




## Normalised group average score by Sub-Principle




## Normalised group average score % change by Sub-Principle compared to prior year


Note: This year the structure of the Lloyd's membership changed from a single view of Lloyd's (Corporation and Market) to each member reporting in their own right. Therefore, it will be possible next year to make true statistical comparisons of like for like.

# Summary

## Principle 1

The membership continued to make year-on-year progress and to score highly for Principle 1, with improved performance across both Sub-Principles. The majority of members continued to demonstrate robust governance structures, evidencing engagement and oversight at board level and improving descriptions of the internal structures used to manage climate-related risk below board level. At management level, members are demonstrating evidence of assigning climate-related roles and responsibilities to identify, manage and report on climate-related risks and opportunities.

Members can continue to improve by incorporating climate change into their business strategy and planning, accompanied by the development of key metrics and targets at board and/or committee level. Members can also provide further evidence of how management teams monitor and assess the implementation of climate plans, goals and targets.

## Principle 2

Members continued to evaluate the implications of climate change for investment and underwriting performance and responded to identified challenges. The majority of members described the climate-related risks and opportunities facing their business by sector, geography and business segment over short-, medium- and long-term horizons. Members articulated how climate risk is integrated into existing risk management systems to identify and manage climate-related risks and how they integrated these risks and considerations into business and investment strategy. The membership greatly increased its disclosure of key qualitative and quantitative metrics and targets for climate-related issues, partly due to an increase in public net-zero targets and decarbonisation targets. Members should look to emerging accounting methodologies around Scope 3 financed and insurance-associated emissions to further develop disclosures. An increasing number of members tied performance against climate-related targets to board-level and senior management remuneration. There was also a significant rise in the proportion of the membership describing the processes used to undertake scenario analysis, partly in response to regulatory stress tests.

There remain opportunities to improve scoring by evidencing how the outputs of scenario analysis are used to understand the resilience of members' business strategies. Many members also did not provide a narrative outlining performance against climate metrics and targets or describe the methodologies behind these metrics. Doing so would demonstrate understanding of how climate strategies have impacted performance and provide further transparency to stakeholders on how strategic targets and metrics are calculated.

## Principle 3

Performance for Principle 3 improved marginally compared to 2021, in part because climate risk was already well integrated into risk management frameworks. Members continued to perform well in identifying, assessing and managing climate-related risks and opportunities and integrated these considerations within the organisation, including disclosure in their Own Risk and Solvency Assessment (ORSA). Members also improved performance by developing new products and partnerships throughout the year to support innovation for climate-related issues.

In line with last year's areas for development, members could demonstrate further efforts to improve data quality issues to help inform the research and analytics of climate-related issues which impact the wider industry. Members could also disclose their processes of ensuring compliance with current and emerging regulatory and supervisory requirements.

## Principle 4

Performance in Principle 4 also improved, with members continuing to reduce the environmental impact of their businesses. More members than ever now have a sustainable procurement policy in place, though many members did not fully articulate or demonstrate the application of this policy in practice.

More members disclosed their carbon emissions, with over 85 per cent of members disclosing Scope 1, 2 and 3 emissions against a globally recognised methodology. Members continued to measure and reduce the environmental impacts of their operations and included many examples of such activities. As with other metric- or data-focused Sub-Principles, member responses lacked accompanying narratives about performance against selected metrics or the disclosure methodologies behind selected metrics. Such disclosure would help members outline the progress and action of decarbonisation strategies and management of associated climate-related risks to broader stakeholders.

Members increased levels of engagement with staff and included strong examples of such engagement. However, there are significant opportunities for members to demonstrate a forward-looking plan for engagement across the business supported by implementation engagement targets and measurement against these. Such plans would help members prioritise engagements and develop a long-term strategic focus on client engagement, which, as outlined in our report, will help them solidify their role as long-term partners in the energy transition.

## Principle 5

Year-on-year scoring for Principle 5 declined marginally due to changes in the scoring methodology (Lloyd's members were assessed individually). Members continued to evidence key examples of actively engaging in public debate on climate-related issues and working with policy makers locally, regionally, nationally and internationally. Few members sufficiently demonstrated how they prioritised engagement to achieve impact aligned to material climate-related issues. Many members built on existing feedback and demonstrated specific examples of leadership or strong collaboration efforts to promote engagement with others.

An increasing number of members supported scientific research undertaken during the year. To improve performance, members should articulate how selected research addresses key climate risks identified by their businesses. Members should also aim to proactively promote knowledge sharing and engage others in selected research topics.

## Principle 6

Overall, Principle 6 scoring remained constant compared to last year. Many members stepped up their efforts to communicate their climate-related beliefs and strategies to their customers and continued to score full marks. Members also demonstrated innovative ways to communicate with customers and help increase their knowledge and awareness of climate-related risks and opportunities. However, most members still did not quantitatively disclose levels of engagement with customers or details of future activities and feedback mechanisms, despite many having the capability to do so. Doing so would help members outline the impact of their engagement activities and allow them to adjust activities to maximise impacts in line with their engagement strategies.

As with Principle 5, many members did not provide a forward-looking long-term plan for engagement. Progress was made on evidencing the tools provided to customers and clients, with guidance on the importance |of assessing climate risk, but there remains room for further improvement.

## Principle 7

ClimateWise Principles reporting was incorporated into 95 per cent of members' annual financial reporting this year. This figure reflects the greater integration of TCFD recommendations and global regulatory trends towards mainstreaming sustainability and climate risk disclosures.

There was a slight increase in the number of members submitting reports late, partly due to ownership changes or internal disruption in some firms. There was an increase in the number of members who publicly disclosed their ClimateWise Principles report. That said, over 40 per cent of members still did not do this.

Members should publish their report to encourage appropriate disclosure of climate-related risks and opportunities and demonstrate a commitment to transparency. ClimateWise Principles reporting is more prescriptive and contains a higher level of detail than that required by the TCFD framework. The Principles are also wider in scope, particularly in the areas of public policy engagement and supporting awareness amongst customers and clients.

# Appendix 1

## Member evidence against the ClimateWise Principles

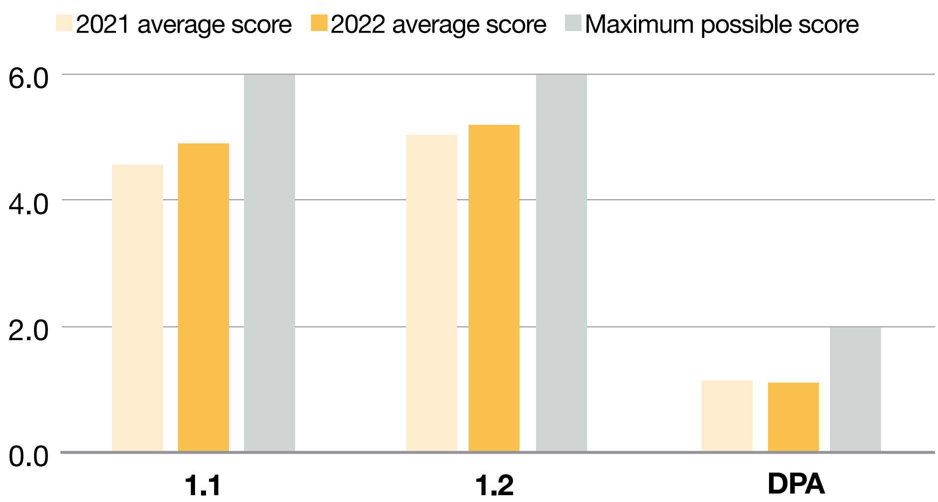
# Principle 1: **Be accountable**

## The Sub-Principles

**1.1 Ensure that the organisation's board is working to incorporate the Principles into business strategy and has oversight of climate risks and opportunities.**

**1.2 Describe management's (below board-level responsibility) role in assessing and managing climate-related risks and opportunities.**

**Principle 1: Group average absolute score by Sub-Principle**



**Principle 1 continued to be one of the highest scoring of the ClimateWise Principles. Newly joined members also performed highly against Principle 1 and showed the steps they had taken to integrate climate risk into governance prior to joining ClimateWise. The greatest year-on-year improvement was made in relation to board-level engagement and oversight of climate risks and opportunities.**

Members continued to demonstrate improvement in board-level oversight of climate risks and opportunities. Sub-Principle 1.1 improved in 2022, with 81 per cent of members scoring full marks for evidencing board-level oversight. Additionally, 73 per cent of members scored full marks for monitoring plans and progress, up from 56 per cent of members last year. These high scores were achieved by members evidencing appropriate governance structures of relevant boards and committees, reporting lines within these structures and disclosing how frequently the board met. Older members improved reporting on how the board monitored plans, although newer members were less skilled/experienced at showing how they incorporated climate change into business strategy, including board oversight of key metrics and targets. This year, 57 per cent of members scored full marks for incorporating climate change into business strategy, an increase from 2021, mainly due to a significant increase in members reporting net-zero targets.

Performance in Sub-Principle 1.2 improved compared to 2021. A greater proportion of the membership scored full marks compared to Sub-Principle 1.1, with 84 per cent scoring full marks (2021: 83 per cent) for assigning climate-related responsibilities to below-board level. This improvement was partly due to members appointing specific climate-related sustainability roles, such as Head of Sustainability or Head of ESG roles. Additionally, 81 per cent of members (2021: 76 per cent) fully evidenced the processes by which management is informed about climate-related issues, and 65 per cent of members (2021: 68 per cent) evidenced how management monitors and assesses the implementation of strategic plans. These reductions were, in part, due to some new members having less mature processes for management oversight of climate issues and assessment of climate-related plans and strategy.

## Key strengths

The membership continued to demonstrate high levels of engagement and oversight at the board level. Members demonstrated robust governance structures and integration of these structures and roles to effectively monitor and oversee progress against strategic plans, goals and targets. **Allianz** demonstrated a robust governance structure through frequent involvement of the board in overseeing ESG topics. Allianz's Group ESG Board has oversight of its ESG strategy and reports to the Board of Management. Allianz has also set up a Sustainability Committee, assigning responsibility to a member of the supervisory board.

Members also evidenced more specifically how boards are monitoring and overseeing progress against strategic plans, goals and targets. For example, the **Argo Global** Board is supported by the Risk and Capital Committee to monitor and review ESG metrics and oversee the company's risk strategy, including climate-related risks. Many members this year, including **RSA** and **Ecclesiastical**, included climate change in the terms of reference for boards and committees, integrating climate change discussions across their governance frameworks.

Members increasingly evidenced the incorporation of climate change into business strategy and planning. Ecclesiastical took several steps to improve year-on-year performance. It identified climate change as a cross-cutting risk, which led to the board approving a responsible and sustainable investment policy which governs investment decisions. Ecclesiastical also appointed a non-executive director (NED) to lead on climate risk. The NED worked with the Climate Response Strategy Group to advance climate action. Additionally, a Climate Strategy Response Group oversees climate strategy and action. Committees with climate-related responsibilities, such as the Market and Investment Risk Committee, included climate change in their Terms of Reference.

Following on from last year's development areas, members demonstrated increased levels of board-level engagement and oversight via increasing the level of training for those charged with oversight of climate-related risks and opportunities. For example, the **esure Group plc** board, among others, received a detailed session on ESG before signing off new climate targets.

There was an improvement in member responses to Sub-Principle 1.2. Members increasingly assigned climate-related responsibilities to management-level positions or committees. This year saw an increase in climate- or sustainability-specific positions at management level. **MS Amlin** and **Canopius** both created a Head of Sustainability role. esure Group outlined how its C-Suite (CRO, CCO, CPO, CFO and GC) all have specific responsibilities linked to its climate strategy. For example, the CFO is responsible for integrating climate plans into investment strategy and supplier management. **Zurich's** UK Executive Committee has developed a specific UK sustainability strategy aligned to the Group themes, which include climate resilience. As part of this strategy, a climate change risk assessment process was introduced in 2021 which has now been integrated as an annual process. The Sustainability Leaders Council, comprised of senior executives and the Group Head of Sustainability, leads the implementation of sustainability objectives, supported by local sustainability champions and a central sustainability team. The structure ensures that Zurich's approach to monitoring progress is effectively integrated across individual business units.

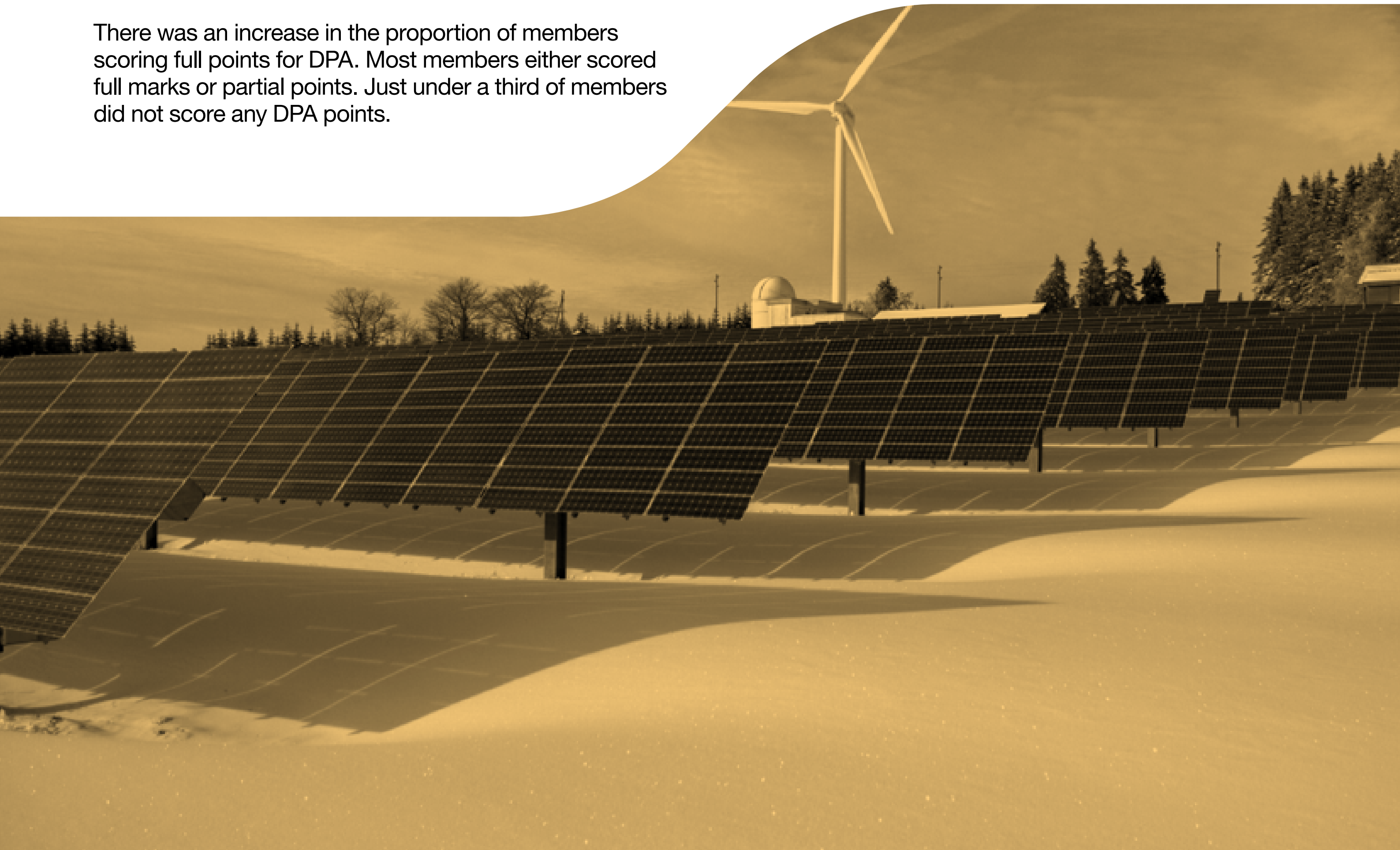
This year, the majority of members fully evidenced processes by which management is routinely informed about, reviews and manages climate-related issues. More members this year outlined specific positions and responsibilities that support their climate strategy. MS Amlin's Climate Risk Working Group reviewed the outcomes from the CBES exercise and considered how to embed elements of the CBES within existing risk modelling by feeding into risk appetite and tolerance metrics.

There was an increase in the proportion of members scoring full points for DPA. Most members either scored full marks or partial points. Just under a third of members did not score any DPA points.

## Recommended areas for development

To improve performance, members should evidence how climate change has been incorporated into business strategy and planning; specifically, they should show the development of key metrics and targets at board and/or committee level. For example, **Tokio Marine Kiln Group's (TMK)** ESG Committee meets quarterly to review progress against climate-related metrics set across key business areas (underwriting, innovation, investments, operations, physical risk analysis, and charity and inclusion).

**Swiss Re** also has a cross-functional advisory body comprised of senior management, the Group Sustainability Council, to align and monitor sustainability activities across the company. For new members, in particular, performance could be improved by specifically evidencing how below board-level management monitors and oversees progress against strategic plans, goals and targets.



## Case study: QBE

QBE continues to demonstrate strong and active board-level oversight of sustainability issues. The board has regular oversight over climate matters and is informed by a well-defined structure of executive-led committees. A key strength is the recent creation of the Group Executive Committee (GEC) Environmental and Social Sub-Committee, designed specifically to understand and report on key environmental and social issues. This sub-committee is comprised of the CRO, CFO, CUO and Group Executive, Corporate Affairs and Sustainability and Group Executive, Technology and Operations. The GEC is accountable for the implementation of QBE's approach to climate change and receives and reviews regular climate change strategy progress updates.

### Board and committee structure

The Group Board approves QBE's overall strategy, which considers climate risks and opportunities. The Board is supported by the Board Risk and Capital Committee (BRCC), which meets six times a year, providing and receiving regular updates on climate change risks and analysis. Divisional Board Risk and Capital Committees regularly receive and review reports on regional climate-related risks and opportunities affecting each division.

### Risk appetite defined by QBE's Environmental and Social Risk Framework

QBE's Group Board and the BRCC play a significant role in the enterprise risk management framework. They are responsible for defining the risk appetite within which risk must be managed and for ensuring that an effective risk management strategy is implemented. All risk categories are managed through Board governance, an approved risk appetite set by the Group Board, scenario analysis and stress testing, and robust capital management. QBE's enterprise risk management framework is outlined in QBE's Risk Management Strategy (RMS) and supported by frameworks for each risk class, including strategic, insurance, operational, credit, market and liquidity risks. Climate-related risks are assessed and classified as part of ESG risks, a sub-class of strategic risk within QBE's Board-approved RMS, and are managed through this integrated framework.

The ESG Risk Committee oversees the approach to identifying and managing ESG risks, including climate. The Environmental and Social (E&S) Risk Framework, which became effective in January 2022, outlines QBE's approach to addressing key environmental and social risks across its underwriting and investment activities. The E&S Risk Framework was developed to promote informed decision making that is consistent with QBE's commitment to sustainable insurance and investment. In line with QBE's commitments to the UNEP Finance Initiative (UNEP FI) Principles for Sustainable Insurance (PSI) and Principles for Responsible Investment (PRI), the E&S Risk Framework further supports the integration of climate and other ESG considerations into QBE's underwriting and investment and increases transparency with customers.

## Highest level of oversight

Growth Board of Directors

Board Risk & Capital Committee

## Accountability for sustainability

Group Executive Committee

Executive Risk Committee

GEC Environmental and Social Sub-Committee

## Integrate sustainability across our business

| | | | | |
|---|---|---|---|---|
| Group Sustainability team | Group ESG Risk team | Group Impact and Responsible Investments team | Sustainability Committee | ESG Risk Committee |

## Drive strategy in focus areas

| | | | |
|---|---|---|---|
| Divisional Emerging Risk Forums | Climate Change Working Group | Group Underwriting Committee | Global Privacy Council |
| Premiums4good Global Steering Committee | Inclusion of Diversity Community of Practice | Health and Safety Working Group | QBE Global Foundation Committee |

# Principle 2: **Incorporate climate-related issues into our strategies and investments**

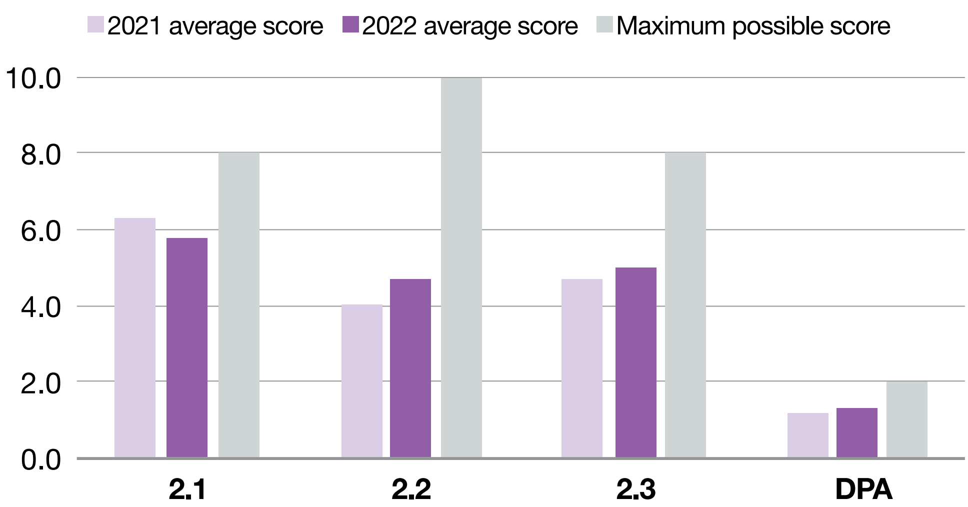
## The Sub-Principles

**2.1 Evaluate the implications of climate change for business performance (including investments) and key stakeholders.**

**2.2 Measure and disclose the implications of climate-related issues for business performance (including investments) and key stakeholders.**

**2.3 Incorporate the material outcomes of climate risk scenarios into business (and investment) decision making.**

**Principle 2: Group average absolute score by Sub-Principle**



**In comparison to last year, there was a decrease in scoring for Sub-Principle 2.1. There were slight increases in the average scores for Sub-Principles 2.2 and 2.3.**

Performance in Sub-Principle 2.1 showed a slight decrease compared to the previous year. This was partly due to new members showing a lower average score than existing members, which brought down the overall average. Full marks were scored by 59 per cent of members (2021: 72 per cent) for identifying priority climate risks and opportunities. This outcome was due to an increased number of members scoring partial marks relating to identifying priority risks and opportunities, primarily due to new members scoring lower because they have less mature climate risk management systems or did not disclose sufficient evidence. Some 65 per cent of members were able to demonstrate the impact of climate-related risks and opportunities on their business, strategy and financial planning. Additionally, over half of members scored full marks for incorporating climate risks into their strategy and financial planning. Members demonstrated evidence of strong collaboration efforts and attempts to encourage better climate disclosure, though some members still struggled to evidence the specific outputs of collaboration efforts.

Member performance in Sub-Principle 2.2 improved over the previous year's average score. However, with fewer than half of members disclosing full evidence of metrics for climate risks and opportunities, 15 per cent of members providing a narrative relating to progress and just over a fifth of members setting climate-related targets, there is still room for improvement.

While there was a significant improvement on 2021, when 24 per cent of members scored full marks, performance against this Sub-Principle still lagged behind others, reflecting the difficulty members faced in measuring and disclosing the impacts of climate issues on business performance. Narratives relating to performance against climate metrics and evidence of targets to manage climate-related risks and opportunities remain areas for development across the membership. Fewer than 21 per cent of members provided either a sufficient narrative relating to progress against these metrics or targets for the short or long term. A record number of members incorporated climate-related metrics into remuneration policies and practice, but over two thirds still did not do this sufficiently to score full marks.

Performance in Sub-Principle 2.3 improved slightly, on average, compared to 2021. Sixty-two per cent of members (2021: 46 per cent) scored full marks for describing the process used to undertake scenario analysis, taking into consideration different climate-related scenarios, including physical, transition and liability risk scenarios. Over half scored full marks for evidencing how scenario analysis was used to understand the resilience of the organisation's current business strategy. Over a third of members scored full marks for demonstrating how the results of scenario analysis impacted key decision making, demonstrating an area for further development. Almost a quarter of members disclosed partial evidence, primarily because members who recently completed a scenario analysis had not yet integrated the outputs into key decision making, which has been highlighted as an area of improvement for many members going forward. Seventy-one per cent of members disclosed full or partial evidence of strong collaboration efforts in the knowledge sharing of risk management and modelling expertise into business (and investment) decision making, an improvement from last year.

There was an increase in scoring against planned activities, as many members provided specific actions taken to achieve the activities planned in the previous year.

## Key strengths

Members continued to evaluate the implications of climate change for business performance and key stakeholders. Members also described priority climate-related risks and identified their impacts on business strategy and financial planning.

**RSA** provided a detailed explanation of how climate risks are integrated into its risk control environment, setting out the priority risks and opportunities across clearly defined time horizons and lines of business. RSA provided the same level of detail for climate-related opportunities as well as comprehensive disclosure of the actions taken within the business to manage these risks and opportunities, including the setting of risk appetite, investing in research and development and adjusting pricing and underwriting.

There were strong examples of members disclosing quantitative and qualitative metrics used to measure and manage priority climate-related risks and opportunities for the business and key stakeholders. Most members who provided full evidence for metrics did not provide an accompanying narrative relating to the performance made against these metrics over the past year, but they were able to provide targets over the short, medium and long term.

**Flood Re Limited** developed 'leading indicators' that need to be achieved in order for it to fulfil its strategy to exit from the market. These indicators are monitored through a dashboard system showing the status of each one as it travels from red through amber to green. **Hiscox** provided detailed information on how climate risks are integrated into its investments. Hiscox uses negative screening and adopted specific targets, including that its entire investment portfolio should be net carbon neutral by 2050 and a 50 per cent reduction in the net carbon emission intensities from its portfolio by 2030, with clear milestone targets for delivery set by the end of 2022.

One in three members evidenced remuneration policies linked to progress against climate targets. From 2022 onwards, **esure Group** is integrating short- and long-term ESG incentives in its remuneration policy for Group executives, which include climate-specific responsibilities and objectives.

More than half of ClimateWise members described the process for undertaking scenario analysis, taking into consideration different climate-related scenarios, including physical, transition and liability risk scenarios. Members that provided full evidence for conducting scenario analysis include RSA, **Zurich, Aviva,** Flood Re, **Swiss Re, AXA XL** and **QBE.** Three quarters of the members that provided full evidence of conducting scenario analysis evidenced how it was used to understand the resilience of the organisation's business strategy against identified material climate risks and how it was integrated within risk assessment processes. Just over a third of members evidenced how scenario analysis impacted key decision making and how strategies might change to address potential risks and opportunities identified. Many members carried out scenario analysis but did not directly use the results to analyse the resilience of their strategy.

Just over a third of members provided full evidence of strong collaboration efforts in the knowledge sharing of risk management and modelling expertise. Aviva developed a new methodology for the measurement of carbon emissions linked to insurance policies, contributing to the current effort led by PCAF and NZIA to establish a common methodology for the measurement of insured emissions. Aviva offered its views to the ongoing public debate on how to measure emissions of underwriting portfolios.

## Recommended areas for development

Although members have improved on disclosure of key metrics used to measure and manage priority climate-related risks and opportunities on the business, disclosure of a related narrative against selected metrics was limited. To improve scoring, members should aim to provide a narrative relating to their performance against these metrics and provide further evidence of targets set (quantitative and qualitative over the short, medium and long term) to manage climate-related risks and opportunities for both the business and its key stakeholders. Members have outlined the processes for undertaking scenario analysis, in part driven by regulatory exercises such as the BoE's CBES. However, members still struggle to outline how the results from scenario analysis have impacted key decision making and how strategies might change to address the potential risks and opportunities identified.

## Case study: Zurich

Zurich takes a comprehensive approach to systematically incorporating climate-related issues into its strategies and investments. Zurich uses numerous indicators across its underwriting and investment activities to monitor, assess and manage climate-related impacts to and for its business. Additionally, Zurich provided detailed information on sustainability and climate-related targets incorporated in executive remuneration. This includes achieving emissions-related targets on balance sheet investments, completing and passing the Sustainable Finance course at the University of Cambridge and developing and executing the strategy for investing in nature-based solutions.

### Responsible investment strategy

Zurich applies a responsible investment strategy across all its investments by assessing ESG factors when analysing individual investments and investment managers; the impact of investing in funding institutions and projects that generate measurable positive environmental or social impacts and active ownership; and the application of selective exclusion screens. In 2021, nearly all of Zurich's own assets were managed by a signatory to the PRI or asset managers meeting Zurich's requirements for responsible investment.

To accelerate and support this process, Zurich is providing incentives to investment professionals to practise responsible investing by reflecting responsible investment in individual objectives across the investment management organisation. Zurich has also incorporated responsible investment into the technical competency framework used to determine job profiles and training requirements and has built a responsible investment team that engages with the rest of the organisation on an ongoing basis. As of July 2022, Zurich UK had switched almost $1 billion of its investment portfolio into a new ESG benchmark as it continues to take action to curb carbon emissions.

### Setting portfolio targets

Zurich has a target to transition its investment portfolios to net-zero GHG emissions by 2050. Science-based interim targets for 2025 are set for listed equity, corporate debt and real estate. In 2020, Zurich procured GHG emission data (Scope 1, 2 and 3) on a company level to calculate its portfolios' carbon footprint. Interim targets for additional asset classes will be added as methodologies become available. This additional information forms part of a more holistic price/risk analysis but also helps Zurich to understand where the climate-related risk and opportunities lie in the investment portfolio.

### Underwriting strategy

Zurich has a sophisticated natural catastrophe modelling approach that incorporates the outputs of several commercial models in a proprietary modelling platform. This, in turn, helps Zurich identify important climate-related natural catastrophe limits for exposure and risk-based capital (RBC) measures. It can also go beyond the current physical climate risks to include climate change effects as part of a wider strategic planning exercise that includes consideration of physical and transition risks. This approach can support companies in their investment strategies for climate change-related risk reduction and adaptation measures ranging from building protection measures to optimising insurance policies for existing assets, assessing potential sites for new facilities and evaluating the impact on value chains (supply chains, infrastructure and utilities).

### Climate risk scenario analysis – Impact on decision making

Scenario analysis is conducted using an integrated modelling approach for both investment management and underwriting portfolios to ensure that assumptions are used consistently across both portfolios. Zurich's Market Strategy and Macroeconomics team has defined high-level scenarios and is monitoring developments with the help of a scorecard that is updated regularly. Zurich's annual scorecard measures progress against 12 climate change-related areas across three critical areas: policy, technology and broader societal trends.

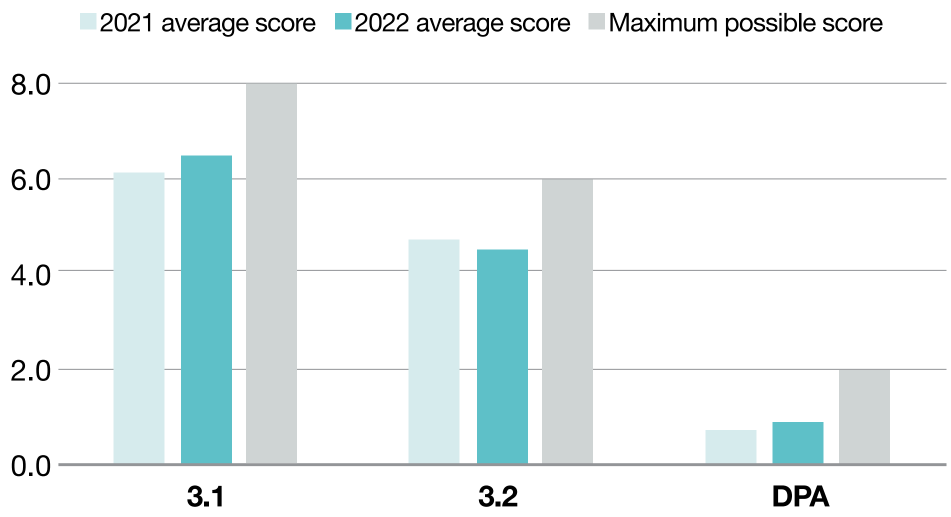
# Principle 3: Lead in the identification, understanding and management of climate risk

## The Sub-Principles

**3.1 Ensure processes for identifying, assessing and managing climate-related risks and opportunities are integrated within the organisation (including investments).**

**3.2 Support and undertake research and development to inform current business strategies (including investments) on adapting to and mitigating climate-related issues.**

**Principle 3: Group average absolute score by Sub-Principle**



**Principle 3 continues to be one of the highest scoring principles amongst existing and new members. This year, members strengthened processes for identifying, assessing and managing climate-related risks and opportunities and demonstrated how they were integrated within the organisation.**

Year-on-year average scores for Principle 3 improved marginally. Performance in Sub-Principle 3.1 improved, with 19 members scoring full marks against this Sub-Principle overall and 73 per cent of members able to sufficiently explain how they manage and review climate-related risks and opportunities (2021: 60 per cent). Members continued to demonstrate how these risks are integrated into risk management frameworks, with nearly 80 per cent of members scoring full marks. There is further opportunity for members to demonstrate how they assess compliance with current and emerging regulatory requirements. As regulated entities, it is anticipated that most members already do this and are therefore not receiving sufficient credit for it.

The year-on-year average score declined slightly for Sub-Principle 3.2, but it remained one of the five highest scoring Sub-Principles. Members still evidenced their role in developing insurance products and new partnerships to support innovation for climate-related mitigation and adaptation. While a record number of members scored full marks against this Sub-Principle, the decline was, in part, due to the increase in new members reporting this year. Many new members are beginning to develop their approaches to supporting innovation for climate-related mitigation and adaptation.

Within Sub-Principle 3.2, 81 per cent of members (2021: 91 per cent) scored full marks for developing new products and partnerships to address climate change impacts. A record number of members scored full marks, and the slight decline was due to an increase in new members providing partial evidence.

Members recognised the need to take further action to improve the quality of data used to inform research and analysis of climate-related issues. Members struggled to articulate specific actions they were taking to address data quality issues, with just over half of members doing so sufficiently. While there were there were strong examples of innovation and partnerships being developed, members still struggled to show how these addressed the most significant issues and supported the opportunities they identified.

There was an increase in scoring against planned activities, as many members provided specific actions taken to achieve the activities planned in the previous year or outlined plans for planned activities for next year.

## Key strengths

Established and new members scored highly against Sub-Principle 3.1 and established members against 3.2. Most provided detailed information for the identification, assessment and prioritisation of climate-related risks and opportunities and, where relevant, divided this up by sector and geography.

Members also performed well when evidencing current business practices and processes for managing and regularly reviewing climate-related risks and opportunities, including how doing so informed their decision making. A record number of members was able to demonstrate how these current business practices and processes are integrated into the organisation's overall risk management framework.

**Allianz** demonstrated an adaptable approach and adjusted internal processes and investment strategies. Allianz risk management is supported by its Global Sustainability team and ESG Task Force to integrate climate-related considerations into its processes and investments. The identified risks are reviewed in materiality assessments supported by internal and external stakeholders.

Established members continued to demonstrate strong partnerships and collaboration to inform current business strategies on adapting and mitigating climate-related issues. **AXA XL** collaborated with AXA Research Fund, AXA Climate and AXA Group Risk Management to obtain detailed insights for communities to understand coastal hazards and make strategic investments in the long term to help investors and private and public sector clients better understand and manage their exposure to coastal flooding.

In 2021, **WTW** announced the design and placement of a sovereign debt 'catastrophe wrapper' for a transaction that enabled Belize to refinance its sovereign debt under the Nature Conservancy's Blue Bonds for Ocean Conservation programme. The parametric policy provides insurance protection to cover Belize's loan repayments after hurricane events. LSM supported this initiative by providing capacity for the parametric cover.

In January 2022, **QBE** launched a Sustainable Energies Unit to support customers as they transition to a low-carbon economy. The unit aligns underwriting capabilities with the growing range of companies and energy systems that form part of a rapidly changing energy mix throughout the world, including solar, wind, hydrogen and carbon capture and storage, and seeks to support an orderly transition. **RSA** continued to develop propositions in renewable energy across its portfolio, offering insurance for wind and solar energy, wave and tidal energy, and bioenergy facilities. RSA advised clients on the viability of new technologies and provided insurance across the full customer experience.

**Lloyd's** continued to demonstrate strong research and development activity around mitigating climate-related issues through its existing innovation labs and research. In February 2022, Lloyd's Portfolio Risk Management team published a report assessing managing agents' approaches to representing current climate conditions in natural catastrophe models while seeking to determine good practice and set new requirements. As a result of the CBES climate scenario exercise, Lloyd's is working to understand the long-term data improvements required to support ongoing monitoring of climate risk and to conduct a feasibility study with a sample group of managing agents to assess the development and capture of carbon measurement across their underwriting portfolios.

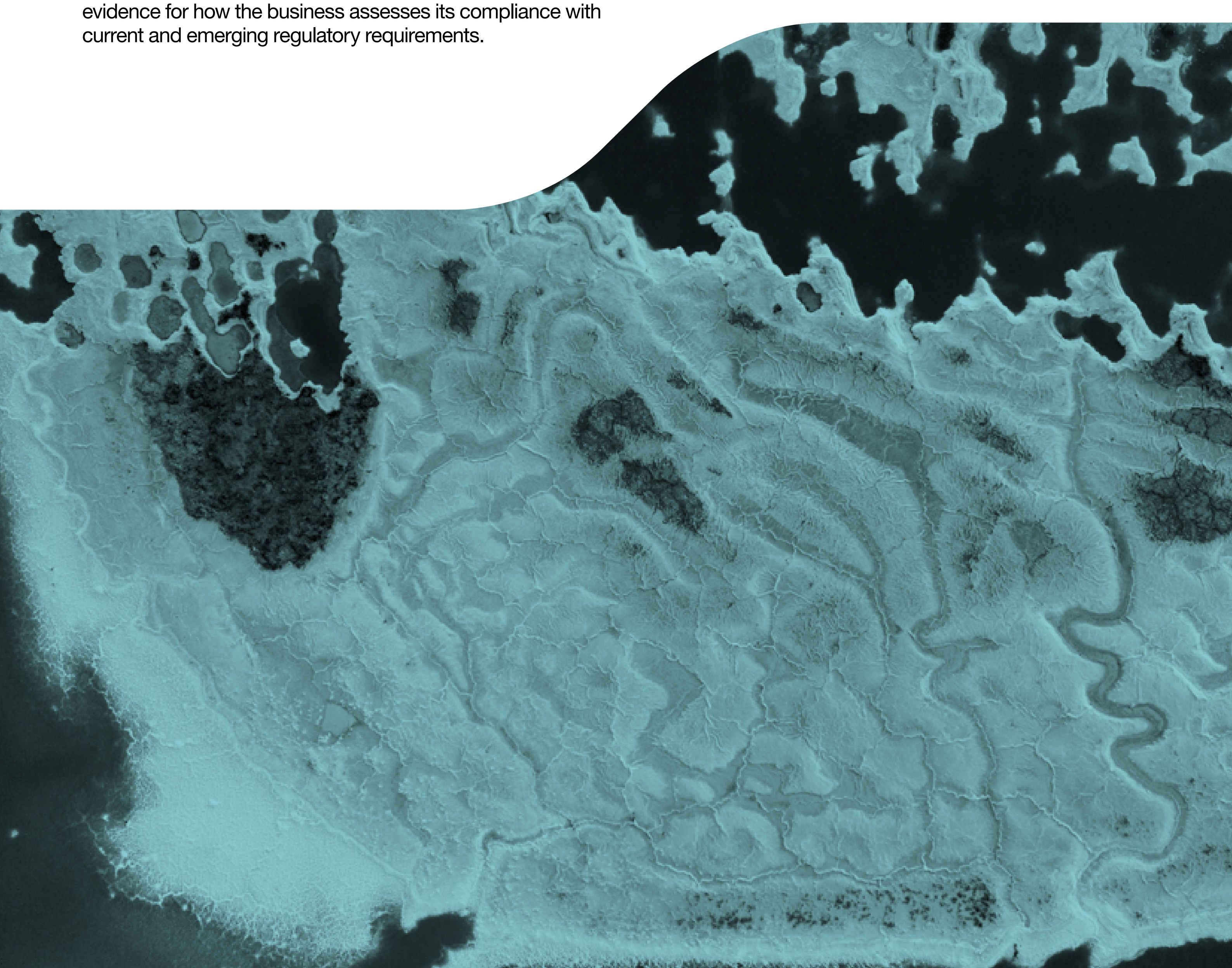
Five out of six members were able to provide full or partial evidence for how the business assesses its compliance with current and emerging regulatory requirements.

## Recommended areas for development

Despite a decline in performance for Sub-Principle 3.2, overall Principle 3 has improved compared to 2021 and remains one of the highest scoring Principles.

To improve performance against Sub-Principle 3.1, members need to clearly evidence how they assess compliance with current and emerging regulatory requirements and processes for identifying risk, particularly newer members. Additionally, some members referred to broader ESG risk rather than climate-specific risk. To improve performance for Sub-Principle 3.2, members need to demonstrate how efforts to support the development of products and partnerships clearly address the most important climate-related issues they identified. Many established members are already demonstrating this.

Additionally, in line with last year's areas for development, members could provide further evidence of their role in improving data quality issues to help inform the research and analytics of climate-related issues which impact the industry.



## Case study: Liberty Specialty Markets

LSM has incorporated climate change considerations into the risk management processes of its subsidiaries (LMAL & LMIE) and into the development of new products and service offerings.

### Identifying, understanding and managing climate risk

LSM's entity Risk Management Committees are now directly responsible for overseeing all climate risks and reporting these to LSM's entity boards, where appropriate, with information provided by the Climate Change Forum (CCF), other committees and the Risk Management team. LSM's Risk Management team monitors and coordinates climate change risk management activities across LSM, and climate change risks have been built into LSM's existing Risk Management Framework. Details of all climate risk-specific information, inclusive of underwriting, investments and operations, is captured by LSM's Risk Management team and reported to key decision makers and LMAL's and LMIE's Risk Management Committees through a Climate Change Risk dashboard which is updated on a quarterly basis. This practice allows for effective monitoring and management of significant climate change risks to LSM. The dashboard includes metrics analysing different risk areas within LSM, monitoring these against specific management information.

LSM has developed a specific Climate Change Risk Strategy covering a variety of business functions – risk management, underwriting, investments, operations, exposure management and claims – to ensure that targeted actions are being taken across the firm.

LSM reviews all underwriting classes of business on an annual basis and assigns each a RAG (Red/Amber/Green) rating based upon potential exposure to climate risks. Climate change scenarios are included within the ORSA disclosure process, which highlights potential exposures within LSM's underwriting portfolio to the physical, transition and litigation risks posed by climate change.

LSM has been focusing on steering its portfolio to become not only more resilient to the ever-increasing potential impacts of climate change on its own operations, but also to engage meaningfully with clients and other key stakeholders as a partner in the journey towards true climate resilience and risk understanding. This strategy focuses on prioritising opportunities to channel support and financing towards transition-aligned technologies and products by providing greater underwriting capacity to initiatives assessed as being a net contributor to this journey.

### Support research and development to inform current business strategies

LSM recognises the enormous role for the energy sector in global GHG emissions reduction and the significant volume of capital that will be required to enable a transition to green energy. There is a need to take a long-term, pragmatic view that considers the resiliency of its customers in terms of 1) mitigation of climate risks, 2) adaptation to those risks and 3) insurance accessibility.

Opportunities:

- LSM has also steered a number of other core lines to ensure they are more aligned to support the economic transition by providing increased cover to certain policyholders deemed most at risk from the changing weather patterns already being caused by climate change.
- LSM's agricultural parametric insurance has grown in the past years, in both size and the number of products offered, and aims to provide climate resilience solutions to those who may not otherwise be able to source insurance.

## Case Study: Belize

In 2021 LSM participated in providing capacity for a parametric hurricane cover in Belize. This 'catastrophe risk wrapper' formed an important part of an innovative approach to sovereign debt restructuring tied to support and funding for marine conservation being led by the NatureVest unit of The Nature Conservancy. The innovative loan structure incorporated the world's first commercial sovereign debt catastrophe insurance cover.

Belize's economy is highly exposed to the economic turmoil and financial damage that can be caused by hurricanes and large storms – not to mention the health and social damage that goes hand in hand with such events. The parametric insurance policy provides coverage for a Blue Loan debt payment (coupon and principal) following an eligible hurricane event in Belize.

The payment can be triggered in several ways: 1) based on the intensity of the hurricane (minimum of Category 3) and proximity to economic hubs, meaning larger storms can be further away and still trigger payment; 2) the occurrence of two hurricanes of any intensity in the same 12-month period; or 3) a hurricane of any intensity accompanied by very heavy rainfall.

WTW had structured the product with a financed budget to purchase a CAT cover. As the project was backed by donors, they could not bear an additional premium based on market conditions, and so LSM, along with other insurance companies, facilitated the risk transfer with a lower margin than that in some private policies in order to ensure the success of the programme.

LSM's underwriting teams have been working with expert third parties to develop a detailed understanding of climate transition risks to the company's underwriting portfolio, including an initial model to measure emissions from sections of its energy portfolio.

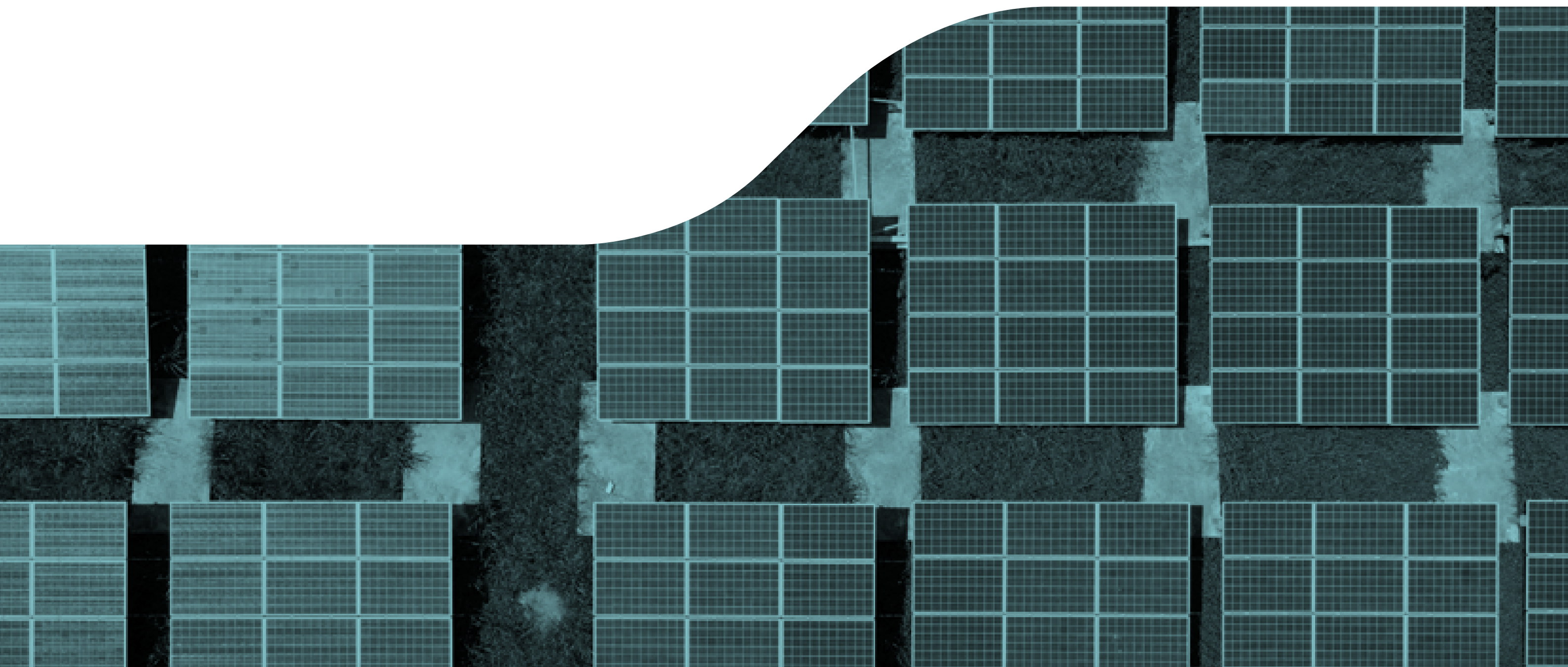
## Advancing customer ESG adoption

Liberty Mutual is working with brokers to help its customers along their ESG journeys in the following ways:

- GRS in North America is offering complimentary access to ESG-related risk advisory services for sustainability and climate-related risks and opportunities for customers in that territory opting in to Marsh McLennan's ESG Risk Rating.
- Through LSM, Liberty was the first major insurer to align capacity to WTW's Climate Transition Pathway (CTP) solution, an accreditation framework developed to drive ESG action and incentivise demonstrable climate transition planning.

LSM is also actively exploring additional climate-related areas:

- Nature: LSM believes that climate change is inextricably related to broader forces and impacts in nature. In addition to being represented on the Taskforce on Nature-related Financial Disclosure (TNFD) Forum, LMIG is actively researching and exploring this topic.



# Principle 4: Reduce the environmental impact of our business

## The Sub-Principles

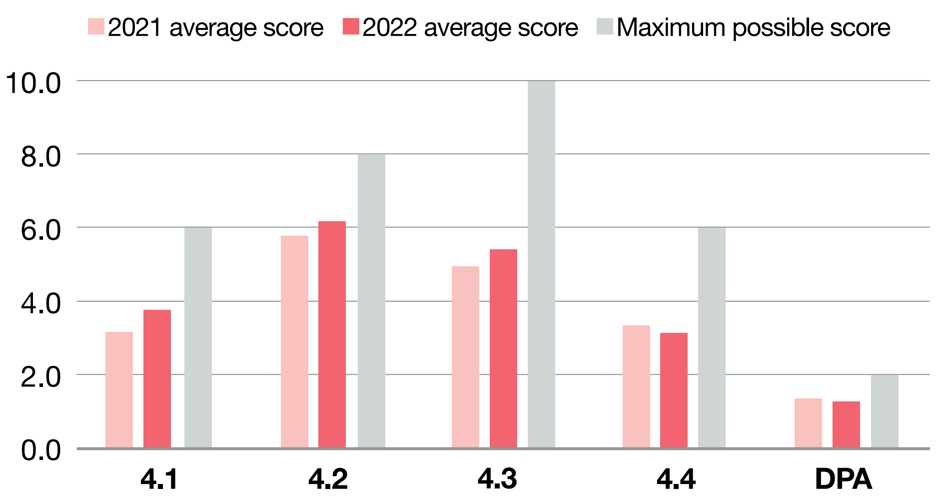
**4.1** Encourage our suppliers to improve the environmental sustainability of their products and services and understand the implications these have for our business.

**4.2** Disclose our Scope 1, Scope 2 and Scope 3 GHG emissions using a globally recognised standard.

**4.3** Measure and seek to reduce the environmental impacts of the internal operations and physical assets under our control.

**4.4** Engage our employees in our commitment to address climate change, helping them to play their role in meeting this commitment in the workplace and encouraging them to make climate-informed choices outside work.

**Principle 4: Group average absolute score by Sub-Principle**



**Members continued to recognise the importance of reporting on and monitoring their environmental impact. An increasing number of members evidenced GHG emissions reporting and improving sustainability across their supply chains. Members continued to engage employees but could provide more evidence of forward-looking programmes, with implementation targets over the short, medium and long term. Opportunities remain for improving the environmental impact of operations, targets and methodologies.**

Performance in Sub-Principle 4.1 was one of the areas of significant improvement compared to 2021. Members engaged with suppliers, established sustainable procurement policies and worked alongside suppliers to increase sustainability and climate resilience. This picture could be evidence of members responding to the theme of last year's report – the insurance value chain – where we outlined the importance of engaging suppliers and other participants in the industry's supply chain. This is reflected in the fact that 68 per cent of members scored full marks for evidencing a sustainable procurement policy. Over 85 per cent had some form of sustainable procurement policy, versus 75 per cent last year. Although many members performed well in regard to providing evidence of a sustainable procurement policy, some only referenced generic procurement policies that incorporated minor social or environmental aspects and therefore did not score full marks. While only 38 per cent of members scored full marks for assessing the current supply chain and any corrective action taken, this figure is still an improvement in 2021, when 23 per cent of members scored full marks, representing one of the areas of poorer performance within the Sub-Principle.

Performance in Sub-Principle 4.2 also improved significantly compared to 2021. Some 86 per cent of members scored full marks for disclosing their Scope 1, Scope 2 and Scope 3 GHG emissions, up from 76 per cent in 2021. This picture reflects broader trends across financial services toward disclosing GHG emissions and investments made by the membership to enhance measurement capabilities. The setting of net-zero targets also contributed to this trend. However, fewer than half of members provided sufficient narrative to explain the performance trend. This year, members participated in pilot studies and helped develop underwriting emissions methodologies (see key strengths below). Going forward, there is an opportunity for members to report financed emissions and underwriting emissions.

Performance in Sub-Principle 4.3 improved compared to 2021. Two thirds of members scored full marks for evidencing environmental impact reduction projects. Fifty-one per cent scored full marks for evidencing other key environmental quantitative and qualitative data, beyond GHG emissions, used to measure and manage priority climate-related risks and opportunities. As seen in performance across other Principles, members improved their disclosure of quantitative metrics and enhanced data capabilities but provided limited disclosure of the methodologies behind these metrics or commentary on performance trends.

Performance in Sub-Principle 4.4 decreased slightly compared to 2021. Members engaged colleagues and increased the number of climate-related activities undertaken, particularly around COP26. However, members provided limited explanation of how these activities relate to a continued programme of engagement that aligns to strategic priorities and material impacts of the business. Sixty-eight per cent of members scored full marks for evidencing engagement of employees throughout the year, the same percentage as last year. Members provided partial or no evidence of a forward-looking programme of engagement with short-, medium- and long-term targets, with only 5 per cent of members scoring full marks for evidencing a comprehensive programme of engagement with targets (2021: 4 per cent). Members could improve scoring further by measuring the uptake and impact of activities conducted.

There was a slight decline in scoring against planned activities. While some members outlined specific actions taken to achieve the activities planned in the previous year, many did not do so or did not outline future planned activities. Despite an increase in the total number of members scoring full marks, most members scored partial marks for DPA scoring.

## Key strengths

Sixty-eight per cent of ClimateWise members provided full evidence for implementation of environmental procurement policies, and 38 per cent engaged with existing suppliers to take corrective action. **Swiss Re** partnered with IntegrityNext and EcoVadis to develop its sustainable procurement policy, aligned with the UN Global Compact Principles. All new Swiss Re vendors are required to complete an ESG assessment.

**esure Group** requires all new suppliers to disclose their approach to measuring and managing carbon emissions as part of its phased approach to reducing supplier emissions. In 2021, esure Group set supply chain carbon emissions reduction targets in line with the **ABI** climate roadmap, with targets to deliver a 50 per cent reduction in Scope 3 emissions by 2030 and to be net zero by 2050. esure Group identified a group of suppliers that account for a significant percentage of supply chain emissions and is targeting those suppliers.

Sub-Principle 4.2 continues to be the highest scoring Sub-Principle in Principle 4. Over 80 per cent of members provided full Scope 1, 2 and 3 GHG emission reporting against globally recognised standards, and more than half also provided absolute targets against a baseline. **Santam Group** provided a comprehensive breakdown of its GHG emissions and carbon footprint, along with a detailed breakdown of Scope 3 emissions including total consumption and CO2 intensity metrics. **RSA** reported Scope 1, 2 and 3 emissions for the past five years with an accompanying explanatory analysis demonstrating the approach to calculating GHG emissions. RSA also provided a detailed narrative of past performance which covered developments in different regions. **Beazley Group** disclosed how it expects to broaden its Scope 3 emissions reporting in preparation for SBTi and outlined a travel carbon budget to support behaviour change around business travel.

Almost two thirds of members scored partial or full marks for disclosing non-GHG environmental metrics and targets in line with Sub-Principle 4.3. **Hiscox** set up 'Green Teams' across the country to support making positive environmental changes for its own operations. **The Hartford** has a 'Hartford Environmental Action Team', comprised of over 600 employees, which meets monthly to discuss progress against targets.

Over two thirds of members scored full marks for engaging employees on climate-related topics, the same percentage as last year. However, as the membership increased in size, this means the absolute number of members engaging employees also increased.

**Zurich** created long-term engagement activities with employees through its 'Beyond Carbon' scheme. This initiative is linked to its employees' flexible benefits and allows employees to offset the carbon emissions they cannot avoid.

## Recommended areas for development

Although members improved scoring for evidencing a sustainable procurement policy, few members evidenced engagement with their existing supply chain to apply corrective action. To improve scoring in 2023, members should evidence a review of existing suppliers as well as of screening new suppliers.

Members increased their engagement activities throughout the year, many of which were centred around and often referenced COP26. That said, only a small proportion could adequately evidence a continued programme of engagement aligned to the material impacts of their organisations or quantify the uptake and impact of activities conducted.

# Case study: Tokio Marine Kiln

TMK demonstrates a comprehensive strategy to measure and reduce its environmental impact and engage with suppliers and employees. TMK discloses Scope 1, 2 and 3 emissions against a baseline reporting year and provides trend information and narratives for emissions levels.

## Engaging with suppliers

TMK's procurement team has established a two-stage process to screen all its suppliers, which incorporates detailed questionnaires and an interview process prior to onboarding.

Stage 1: All new suppliers are required to provide details on third-party certification with regard to the products and services that they are providing to TMK. This third-party certification comes in the form of ISO 14001 - Environmental Management, ISO 26000 - Social Responsibility, ISO 50001 - Energy Management, ISO 9001 - Quality Management and SA800 - Social Accountability.

Stage 2: The suppliers are asked to provide details of their environmental policy, governance around the environmental management of climate risks, board and senior management responsibilities, and measurement of their environmental impact and plans to reduce it (eg, carbon, waste, water, energy, recycling, packaging) as well as to disclose their overall carbon footprint, with a particular focus on Scope 3 emissions.

Responses are discussed through interviews to ensure they are robust and meet TMK's selection criteria prior to onboarding. TMK maintains a Preferred Suppliers List of pre-vetted suppliers meeting environmental and other standards. If there are suppliers who do not meet the selection criteria for environmental reasons, these will be discussed by the Products and Operations Committee and/or ESG Committee where required.

TMK collects and collates environmental performance statistics from its suppliers (on at least a bi-annual basis) to monitor performance and ensure standards are maintained (eg, environmental and sustainability credentials of paper purchased; information to support calculation of GHG emissions associated with business travel). TMK regularly reminds its suppliers of the importance of this data and how it is used by TMK.

TMK's procurement team is implementing a new system, Workday Strategic Sourcing, which was due to go live at the end of Q3 2022. The system will be used for supplier due diligence and will continue to capture the existing ESG question set.

## Disclosing and managing environmental impact

TMK collects and collates environmental activity data bi-annually. This information is used to calculate and report corporate environmental metrics, including GHG emissions, and supports annual corporate reporting by Tokio Marine (globally) and by Tokio Marine Kiln Group via its Streamlines Energy and Carbon Reporting (SECR) disclosure in the annual TMK Director's Report.

TMK discloses its Scope 1, 2 and 3 emissions with 2019 taken as its baseline year against which to compare progress. Through work with industry-level bodies such as the NZIA, TMK is developing an approach to understanding emissions downstream in the business's value chain. These include emissions associated with TMK's underwriting products and investments.

TMK publishes further data on the environmental impact of operations with measures of electricity consumption, electricity from renewable sources, natural gas consumption, water consumption, travel, waste, etc. It has published results for the past three years and highlighted the percentage change between each year. TMK also tracks its performance against metrics on a quarterly basis and reports on performance to the Operation Committee and then to the Risk, Capital & Compliance Committee (RCCC) through ORSA. The 2021 metrics are disclosed, with 2019 taken as the baseline data set, along with a narrative for metrics.

## Engaging with employees

TMK has embedded the key pillars of the 'Good Company' culture within the annual performance reviews of its employees. Recognition is also supported by the Tokio Marine Group, where each subsidiary nominates an employee to receive the Good Company Award in Tokyo each year. TMK staff are each allocated three volunteering days per year. In recognition of its work on engagement with employees and Group initiatives, TMK won the Group's Good Company sustainability award.

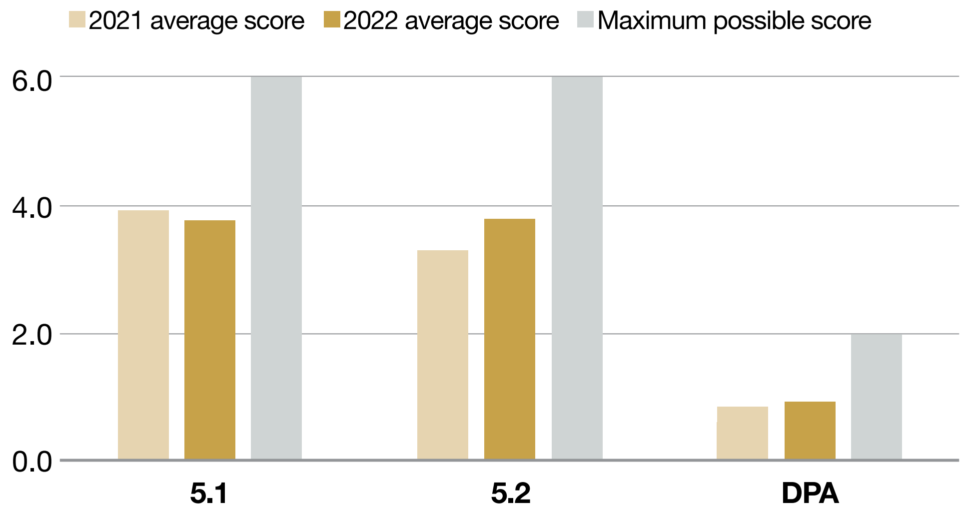
# Principle 5: **Inform public policymaking**

## The Sub-Principles

**5.1 Promote and actively engage in public debate on climate-related issues and the need for action. Work with policy makers locally, regionally, nationally and internationally to help them develop and maintain an economy that is resilient to climate risk. Disclose our Scope 1, Scope 2 and Scope 3 GHG emissions using a globally recognised standard.**

**5.2 Support and undertake research on climate change to inform our business strategies and help to protect our customers' and other stakeholders' interests. Where appropriate, share this research with scientists, society, business, governments and NGOs in order to advance a common interest.**

**Principle 5: Group average absolute score by Sub-Principle**



**Members continued to promote and actively engage in public debate on climate-related issues. Members this year evidenced research undertaken either individually or in collaboration with other members or industry bodies.**

Within Sub-Principle 5.1, over 75 per cent of the membership evidenced engagement activities to influence public policy on climate mitigation, a substantial increase from just over half of members in the previous year. However, as in previous years, members struggled to demonstrate evidence of prioritising engagements aligned to material issues, with just under a quarter doing this successfully. Almost 80 per cent of the membership demonstrated some form of leadership or active collaboration effort on matters relating to climate change, up from just over 70 per cent in the prior year.

Sub-Principle 5.2 improved significantly compared to the previous year, with members demonstrating further evidence of research on climate-related issues. Over 54 per cent of members provided sufficient evidence of research during the year, up from just under half in the prior year. Over 80 per cent of members scored full or partial marks for proactively promoting knowledge sharing and research, an improvement from just over 70 per cent in the previous year. However, members still struggled to evidence how research conducted addressed key climate-related risks facing their businesses, with only 38 per cent scoring full marks. Overall, this Sub-Principle average increased by just over 8 percentage points, showing how members were able to build on existing research practices and partnerships.

There was a slight increase in scoring against planned activities as many members provided specific actions taken to achieve the activities planned in the previous year.

## Key strengths

Building on the momentum from COP26, members increased engagement with policy makers locally, regionally, and nationally and internationally.

**Zurich** has been actively engaged with the EU and across Europe through the European Financial Roundtable (EFR), chairing the Secretariat for PEIF, Pensions Europe and Insurance Europe to influence policy thinking on climate change. Zurich is also engaged in nature-based solution discussions through programmes such as ‘Merlin’ as part of EU Horizon 2020. Zurich responded to five government consultations related to climate change and sustainability, including feeding in to the ABI’s submission and responding directly to the Transition Plan Taskforce’s call for evidence. The Taskforce, co-chaired by Aviva CEO Amanda Blanc, consulted on what guidance and framework should be in place for private businesses to produce mandatory climate transition plans by 2023.

The **ABI** held an industry roundtable to discuss challenges to implementing additional capital requirements to address climate-related financial risks. The ABI has become an official ‘Accelerator’ of the UN-backed ‘Race to Zero’ campaign and is the only financial services trade association to achieve this status. In summer 2022, the ABI hosted the second annual Climate Change Summit, which included updates to its Roadmap.

**Flood Re** also responded to several key government strategy documents, including the EA’s National Flood & Coastal Erosion Risk Management Roadmap, which was released in June 2022. Flood Re also concluded its first quinquennial review (QQR), following more than two years’ consultation and collaboration with Defra, insurers and stakeholders. As a result, the UK government accepted Flood Re’s recommendations to

- implement the Build Back Better scheme
- adjust its levy to make it responsive to needs
- use funds for activities to support the transition to affordable risk-reflective pricing, including the uptake of property-level flood resilience
- reduce the cost of premiums to provide relief to the lowest-value properties.

Many members are engaged with external stakeholders to actively contribute to the debates and solutions. **Munich Re Group** has collaborated with the UN Environmental Programme and Global Climate Forum to support European policymakers introduce a price for carbon emissions and has represented the Sustainable Finance Committee advising the German government. Munich Re has shared its knowledge acquired from investing in research with stakeholders at climate conferences and hosted specific client seminars.

**Santam** has taken a key leadership role in climate change industry forums. The Group’s Strategic Unit Manager was elected chairman of the South African Insurance Association’s (SAIA) Climate Change Forum during Q4 2021. The SAIA Climate change forum meets quarterly to discuss topical climate change-related matters, which include input to key trends and regulatory developments.

**WTW** holds several positions in leading organisations and engages throughout the year to influence policy. These positions and engagements are communicated to customers through its website, newsletters and one-on-one engagements. They include the Insurance Development Forum, where Carl Hess, CEO, holds a position on the Steering Committee and Rowan Douglas, Head of the Climate and Resilience Hub, holds a position as the Chairman of the Operating Committee.

In line with the requirements of Principle 5.2, members carried out research, either independently or in collaboration with other members or industry bodies, to support clients and adapt their strategic plans to the physical and transition risks of climate change.

Flood Re explored the social implications of climate change, a key example of how members can examine the implications of the just transition. It built on research it commissioned in 2020 on social vulnerability and flood risk exposure to increase understanding regarding flood vulnerability due to climate change. The analysis examined the intersection of low income, exposure to flood risk and insurance take-up at present and in the 2050s and 2080s. Flood Re used this knowledge to provide subject matter expertise to the Rochdale Flood Poverty Project to assess opportunities to improve financial resilience in that deprived area that may be relevant to other communities.

**TMK** piloted research into the quantification of carbon emissions with CarbonChain, a start-up building technology solutions, to measure GHG emissions to inform underwriting decisions. TMK and CarbonChain began exploring this partnership in the summer of 2021 as part of a project within the Lloyd's Lab, the innovation incubator of Lloyd's. Following a successful trial using a small data set during the Lloyd's Lab programme, TMK and CarbonChain launched the first phase of the project looking at a portfolio of approximately 2,000 companies. In this first-of-its-kind initiative, TMK and CarbonChain aimed to develop a methodology framework to measure customers' emissions and compare them with their industry and regional peers, translating this into a 'carbon risk rating' that TMK could then take into account when considering each policy it underwrites.

**Sanlam** supported or undertook research throughout 2021 in collaboration with Climate Fund Managers, World Wide Fund for Nature (WWF), Business Unity South Africa (BUSA), Every Action Counts Coalition, NBI's Just Transition Pathway for Decarbonising the South Economy, Climate Action 100+ and 6 Capitals. The collaboration effort and research contributed to climate mitigation and adaption measures. Sanlam disclosed how this research has informed its business strategies.

**esure Group** undertook its own research to map the development of electric vehicles' (EV) charging infrastructure in the UK. It made this research publicly available via its website, and the content has been used by various news websites. esure Group worked with its customers to explore their concerns over EV insurance products. Its research included a series of focus groups and user testing via Zoom and explored the impact of brand effects on, and consumer attitudes to, carbon offsets. This research included the extent to which consumers wanted to better understand and quantify their footprint, their desire to actively offset their own driving-related emissions and how much they would be willing to pay to do so. The results were used to inform the development of its EV and 'greener driving' product propositions.

**QBE** Ventures invests in and builds alongside early-stage technology companies that have the potential to enhance its business model and reshape the insurance industry. QBE Ventures made a strategic investment in the Demex Group, a United States-based start-up that has built a world-leading parametric platform for analysing, pricing and transferring climate-linked risks.

## Recommended areas for development

While most members listed numerous engagement activities throughout the year, many struggled to evidence how they prioritised engagements to align to material climate-related issues. To improve scoring, members should identify key policy areas and types of engagements to focus their efforts on. Members could also demonstrate evidence of specific involvements in committees and industry forums, as well as other specific contributions made to influence policy.

While there were good examples of supporting and undertaking research, there is opportunity for improvement across the membership to proactively engage each other to share the results of research. ClimateWise, among others, is the type of forum that openly encourages participation in and knowledge of research. Several members participated in the production of this year's white paper and included this participation in their submissions. Members should also evidence how the research undertaken addressed key climate-related risks facing the business or is integral in influencing business strategy.

# Case study: Flood Re

Flood Re evidenced expertise and leading practice in informing public policy making. Flood Re continued to leverage research to raise awareness of flooding risks and grow partnerships to enable change. A highlight in 2021 was Flood Re's involvement with COP26, which included a mobile demonstration of over 50 resilience adaptations for the home on a tour of flood risk areas in the UK and speaking at the World Climate Summit on 'investing for resilience'. In 2021, Flood Re actively worked with Defra officials and other stakeholders to design and implement the legislation underpinning the Build Back Better scheme, which seeks to actively increase homes' resilience and reduce risks from flooding over time, thus offering a new and innovative solution to adapt to increased risks from a changing climate. Flood Re also engaged with the EA, providing input and policy recommendations on a number of key government strategy documents.

## Prioritising engagements and research

Flood Re Limited's purpose is to promote the availability and affordability of flood insurance for eligible homes and to manage, over its lifetime, the transition to risk-reflective pricing for household flood insurance. Flood Re therefore prioritises engagement by devoting significant resources to collaborating and/or providing expert input on policies developed by stakeholders such as the BoE, the ABI, the EA, the Committee on Climate Change, the National Infrastructure Commission, academics and consultants concerning the implications of climate change for the insurability of homes due to flood risk.

## Engaging in public debate

Flood Re provided input and policy recommendations on a number of key government strategy documents, including the EA's National Flood & Coastal Erosion Risk Management Roadmap, which was released in June 2022.

Flood Re's first QQR was concluded in 2022 following more than two years' consultation and collaboration with Defra, insurers and stakeholders. Following a formal public consultation, the government accepted Flood Re's recommendations to:

- implement the Build Back Better scheme, which entailed using funds to pay for the uptake of property-level flood resilience, which will reduce risks over time
- adjust its levy to make it responsive to needs
- reduce the cost of premiums to provide relief, especially to the lowest-value properties.

The Build Back Better scheme, launched in April 2022, is a world-first public–private initiative. It allows for homeowners affected by flooding to receive up to £10,000 in order to rebuild their property with flood resilience and resistance measures if they hold a policy with an insurer participating in the scheme.

The Transition Team also conducted research on the value of increased investment in flood defence maintenance. This research was launched at the ABI's Property Conference and received wide national, regional and trade coverage. Flood Re also shared the research with stakeholders such as Defra and the EA, which helped to make the case to prioritise spending on flood defences.

## Supporting climate-related research

Flood Re became one of the partners in the Wyre Valley Natural Flood Management (NFM) Pilot, which seeks to track the losses avoided due to natural flood risk management and represents one of the leading projects for piloting a new business model to implement nature-based solutions. The pilot went live in March 2022 and is testing an innovative structure to attract private sector investment to reduce flooding, amongst other benefits, through NFM.

Flood Re has provided financial support for research and monitoring activities and provided considerable staff time and expertise to develop the model to estimate benefits the impact of interventions and likely benefits (e.g., risk reduction). The project will combine multiple revenue and benefit streams, with both adaptation (natural flood management) and mitigation (carbon sequestration) benefits. The project officially started in March 2022 with the implementation of the legal structure and governance/committee meetings. Landscape interventions were implemented throughout 2022, and the project will run until 2031, measuring the year-over-year effectiveness of the measures.

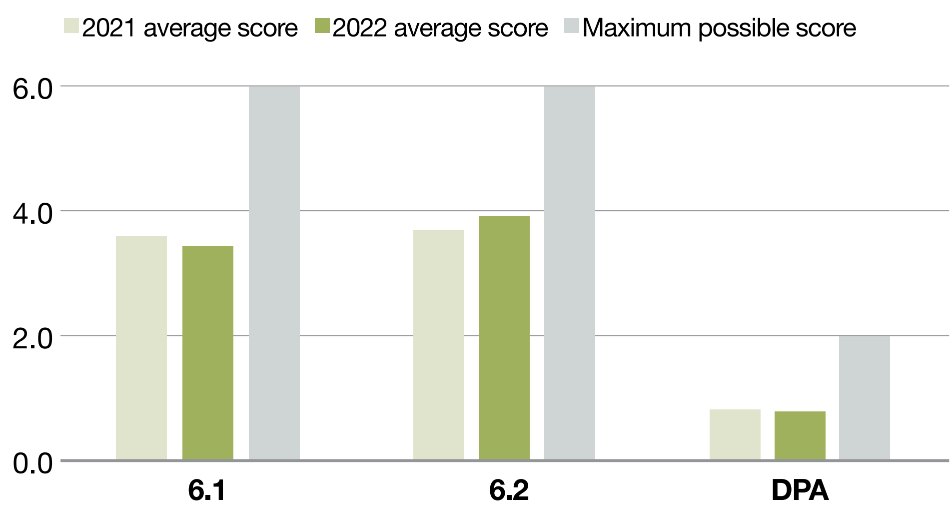
# Principle 6: **Support climate awareness amongst our customers/clients**

## The Sub-Principles

**6.1 Communicate our beliefs and strategy on climate-related issues to our customers and/or clients.**

**6.2 Inform our customers and/or clients of climate-related risks and provide support and tools so that they can assess their own levels of risk.**

**Principle 6: Group average absolute score by Sub-Principle**



**Scoring for Principle 6 remained constant. Members continued to perform well and communicate their beliefs and strategies on climate-related issues to customers. Members also provided support and tools to allow customers to assess their own level of risk.**

Over 85 per cent of members scored full marks for communicating their beliefs and strategies, a 2 per cent improvement on the previous year. While more members scored full marks for evidencing a robust plan for engaging customers, a significant proportion still did not do so sufficiently. Many members still struggled to provide quantitative disclosures of engagement activities or evidence of feedback mechanisms. This is disappointing considering most members will have the technical capabilities to do this.

Sub-Principle 6.2 saw continued improvement in the way members demonstrated how they have provided support and tools to customers to help them assess their own levels of risk. A similar proportion of the membership scored full marks for identifying areas of behaviour change needed to mitigate climate risk as in the previous year. A record number of members scored full marks for engaging customers to improve resilience and encouraging client awareness. However, over a third of the membership did not score full marks. While there were increases in the number of members scoring full marks for providing tools and services for customers to assess their own exposure to climate risk, almost a quarter of the membership did not provide any evidence of doing this. In line with the previous year, high-performing members were able to provide tools to help assess transition risk as well as physical risk.

There was a slight decline in scoring against planned activities. While some members outlined specific actions taken to achieve the activities planned in the previous year, many did not do so or did not outline future planned activities. Despite an increase in the total number of members scoring full marks, most members scored partial marks for DPA scoring.

## Key strengths

Members continued to communicate their climate-related beliefs and strategies with customers. Members have also been exploring new ways to communicate with customers and support them in adjusting to climate-related risks and opportunities.

Members who performed well created customer engagement plans so they could target messaging to create the greatest impact. **Allianz** created bespoke engagement plans for individual customers, brokers and agents, investors, corporate customers and society. This initiative included the launch of the Allianz Net Zero Accelerator, aimed at smaller independent brokers to help them transition to net zero.

This year, many members demonstrated the use of climate-related tools to support customers in adapting to and preparing for climate change risk. **AXA XL** created an Environmental Sensitivity Tool that allows clients to identify and mitigate pollution and environmental risks. It produces environmental sensitivity scores and uses customer-specific data to assess liability exposures. AXA XL has communicated its beliefs and strategies through its AXA Climate School, live webinars for clients and thought leadership. **QBE** launched a similar Sustainability Self-Assessment Tool to support customers in assessing ESG risks and opportunities and understanding their own environmental impact.

**Zurich** ran the media campaign ‘Sustaining your World’ to communicate its position on climate change to customers. Zurich also communicated its beliefs through sponsorship of Bloomberg’s Green Summit and regular publishing of sustainability pieces on its Sustainability Hub website.

**Flood Re** ran an eight-week programme of activity in the run-up to COP26, which included its Build Back Better initiative, presentations at the Public Policy Exchange, a New Statesman event and attendance at the National Housing Federation Asset Conference and industry trade shows. It also took a ‘Floodmobile’, a mobile demonstration unit of over 50 resilient adaptations for the home, on a ‘Road to COP26’ tour of flood risk areas in the UK to highlight the need for property flood resilience and adaptation.

**RSA** communicated its climate change and low carbon policy in a variety of ways to engage its stakeholders, including website articles and YouTube videos on topics such as responsible investment and underwriting, sustainable operations and responsible supply chains.

**Hiscox** published blogs on climate-related topics to engage customers; examples of subjects addressed in the last year include its London Markets Flood Team predictions for climate impact in the next three to five years, National Flood Insurance Programmes risk rating 2.0, wind energy and the net-zero transition.

**MS Amlin** used social media platforms, email listings and press releases to communicate information on relevant climate topics, such as hurricane forecasting, energy storage solutions and its own climate strategy and beliefs.

Zurich UK launched a smart building proposition to help businesses cut property losses and boost sustainability. The self-installed devices monitor the real-time 'health' of buildings, allowing organisations to increase operational efficiencies, reduce risk and optimise energy use to support carbon reduction.

**TMK** offered a programme to customers to support the development of business continuity plans for small and medium-sized companies. TMK offers lectures and workshops as part of the planning process and a follow-up service to support companies to complete their business continuity planning.

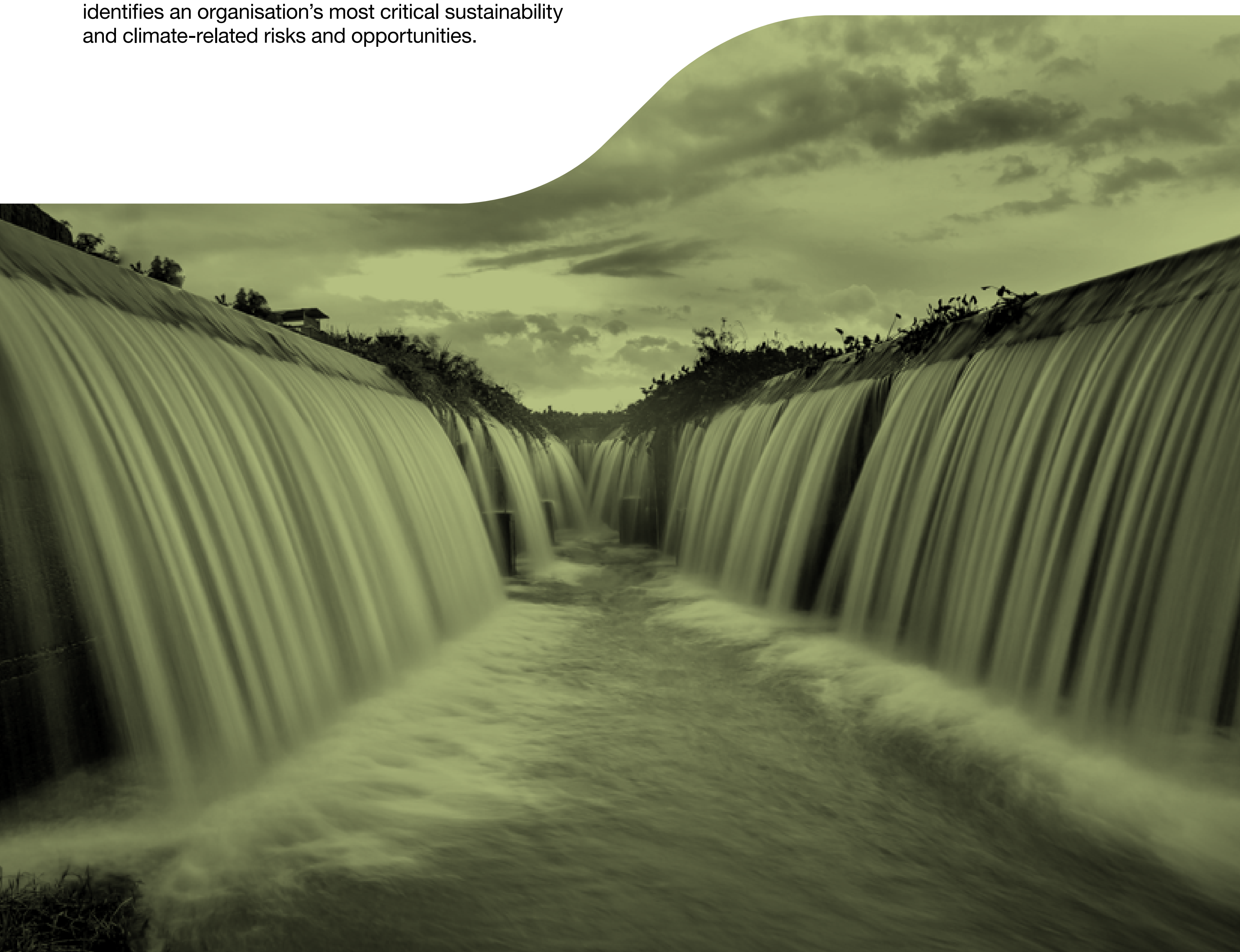
**Marsh McLennan** developed an ESG Risk Rating that helps clients assess the extent to which ESG is embedded within an organisation. The ESG Risk Rating tool factors in over ten internationally recognized standards, tailors the rating by industry sector and identifies an organisation's most critical sustainability and climate-related risks and opportunities.

## Recommended areas for development

Despite extensive activity and evidence of communicating their beliefs and strategy with customers, less than 20 per cent of the membership disclosed sufficient quantitative analysis of their outreach activities and customer campaigns or evidence that their campaigns had the desired effect on their target audience.

Overall, members still struggled to demonstrate a strategic and long-term approach to customer engagement. As we have outlined in our main report, supporting customers with the energy transition requires long-term partnership and engagement with all stakeholders. Members should therefore look to develop and disclose robust forward-looking engagement plans that will result in increased knowledge and awareness of climate-related risks and opportunities.

Despite some innovative examples from high-performing members, there is room for improvement in regard to developing tools for customers and clients with guidance on assessing their climate risk.



## Case study: MS Amlin

MS Amlin has progressed its climate stewardship journey, evidencing significantly increased efforts to engage clients and other key stakeholders on climate risk assessment and mitigation to build resilience. Its disclosure this year demonstrated tangible, accessible and impactful steps members can take to progress action on supporting climate awareness amongst their clients.

In a relatively short time, MS Amlin has leveraged existing capabilities towards a plan that aimed to regularly share insights and content with customers and clients on climate change. It did so through various delivery mechanisms, including mailing lists, social media and press releases on topics such as hurricane forecasting, energy storage solutions and the company's own net-zero strategy. These enhanced efforts, forming part of a central strategy and commitment of resources, reflect the type of progress required by the membership, as we outline in our report, to become long-term partners for their clients' journeys towards a greener world.

### Communicating on climate-related issues to customers/clients

MS Amlin's corporate website is one of the key communication channels used to share information with customers, brokers, partners and other stakeholders. In 2022, MS Amlin published a dedicated sustainability area on its site and planned and engaged with both journalists and trade publications via its press releases and other means to further enhance its climate-related communications. MS Amlin used these engagements to help refine and articulate its Sustainability Strategy as well as to tailor ESG activity to its stakeholders' wide range of priorities and expectations, demonstrating a cycle of continued feedback and improvement. The measurement and analysis of the levels and types of engagement with climate-related content were seen as effective tools employed by MS Amlin to understand trends and monitor hot topics. This tool could be widely and rapidly replicated across the ClimateWise membership to provide real cross-industry insight.

### Providing tools and support to customers/clients

Another example also evidenced strategic planning and commitment across and between the Principles. In June 2022, MS Amlin shared research with customers and clients by publishing an overview of the 2022 hurricane season forecasts. All published reports on atmospheric perils now systematically include commentary on the potential impact of climate change on the perils in question. The report correlated forecast data from more than 29 research groups, private companies and universities that outlined an above-average North Atlantic hurricane season. The mean forecast projected 19 named storms, eight hurricanes and four major hurricanes.


This type of research project demonstrates alignment with several ClimateWise Principles and Sub-Principles, such as Principle 3 ('leading in the identification, understanding and management of climate risk') and Principle 6 ('supporting climate awareness amongst customers and clients'). The project demonstrates MS Amlin's commitment to proactive research and education efforts on the topic of climate risk.

# Sustainability

## As a responsible (re)insurer we have an ongoing sustainability commitment, that aligns our broader societal responsibilities with our commercial ambitions.

We recognise that working hard to provide contributions to the communities within which we operate, we can help create a sustainable and stable future for our clients, people and partners, to help secure mutual success.

This is why we define sustainability as "*Meeting the needs of the present generation without compromising the ability of future generations to meet their needs*".

> "As a global (re)insurer we are acutely aware of our place in the world and the responsibility we have to take decisive action to help tackle increasingly complex problems. We see these challenges as a catalyst to stimulate innovation and commercial longevity, strengthening collaborative efforts towards a sustainable and resilient future."
>
> Johan Slabbert, CEO MS Amlin Underwriting Limited

Our sustainability strategy focuses on underwriting complex risks. Executed in the right manner, and by drawing on our expertise, this strategy will strengthen collaborative efforts towards building an inclusive, sustainable and resilient future.

By (re)insuring clean energy installations, schools, hospitals, water sanitation plants, charities and NGOs, and promoting the use of decarbonisation technology where appropriate, we are well positioned to support sustainable economic development.

To understand our approach to sustainability in a little more detail, click the tabs below

- Climate Change and other environmental factors
- Equality, Diversity and Inclusion
- Communities and Corporate Social Responsibility
- Measurement and Reporting
- Underwriting, Investments and Operations
- Corporate Conduct, Business Ethics and Transparency

SUSTAINABILITY STRATEGY | OUR PRIORITIES | GOVERNANCE


→ Download summary document

→ Download full document

Our Sustainability Strategy sets out the steps we will be taking over the next 36 months and provides multi-point plans for how we will embed ESG criteria and monitor performance effectively. This will support our commitment to minimise the environmental impacts of our operations globally, while also building out more robust social and governance practices.

More broadly, our Sustainability Strategy aligns business strategy with our parent company's vision. Equally, it will address an increased appetite from our clients looking for support on sustainability as they navigate the transition to net-zero, respond to changing weather risks and evolve their business models.

The sustainability strategy supports our business plan and underpins the company's broader ambitions of creating long term enterprise value by doing the right thing, rather than the easy thing, and implementing a responsible underwriting approach.

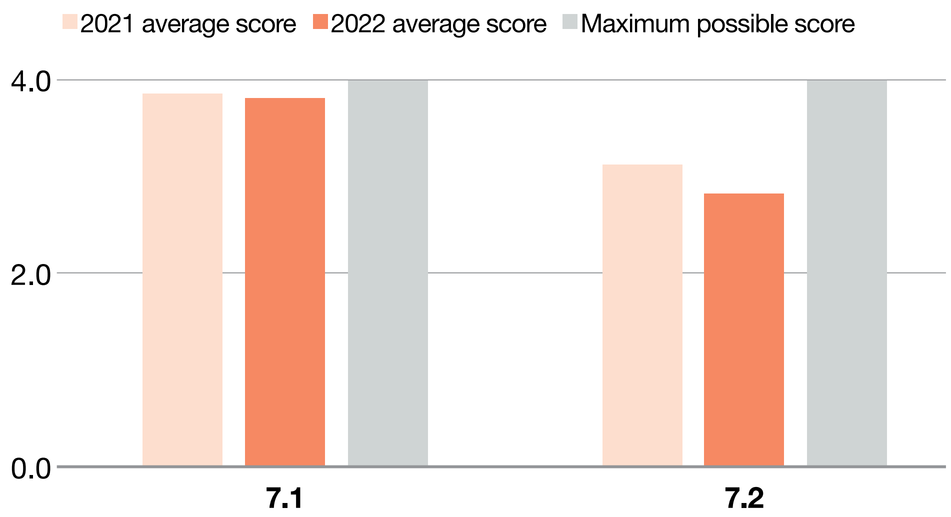
# Principle 7: **Enhance reporting**

## The Sub-Principles

**7.1 Submission against the ClimateWise Principles.**

**7.2 Public disclosure of the ClimateWise Principles as part of our annual reporting.**

**Principle 7: Group average absolute score by Sub-Principle**




*Average scores include results from all members included in public reporting. Members who are new to ClimateWise for 2022 reporting are included. These results are in line with the averages included in members' feedback forms and are consistent with prior year methodology.*

**Principle 7 demonstrates the commitment to transparency amongst ClimateWise members for the public disclosure of climate-related risk and opportunities.**

Overall scoring for Principle 7 decreased slightly, as a result of a decline in scoring for Sub-Principle 7.2, as several established members did not disclose their ClimateWise reports publicly.

Thirty-one members scored full marks for Sub-Principle 7.1, demonstrating that the vast majority are reporting against all the ClimateWise Sub-Principles and submitting their report on time. Ninety-five per cent of members scored full marks for reporting against all ClimateWise Sub-Principles compared to 84 per cent in 2021. There was a slight increase in the number of members submitting reports late, partly due to ownership changes or internal disruption in some firms.

There are no requirements to demonstrate planned activities relating to Principle 7.

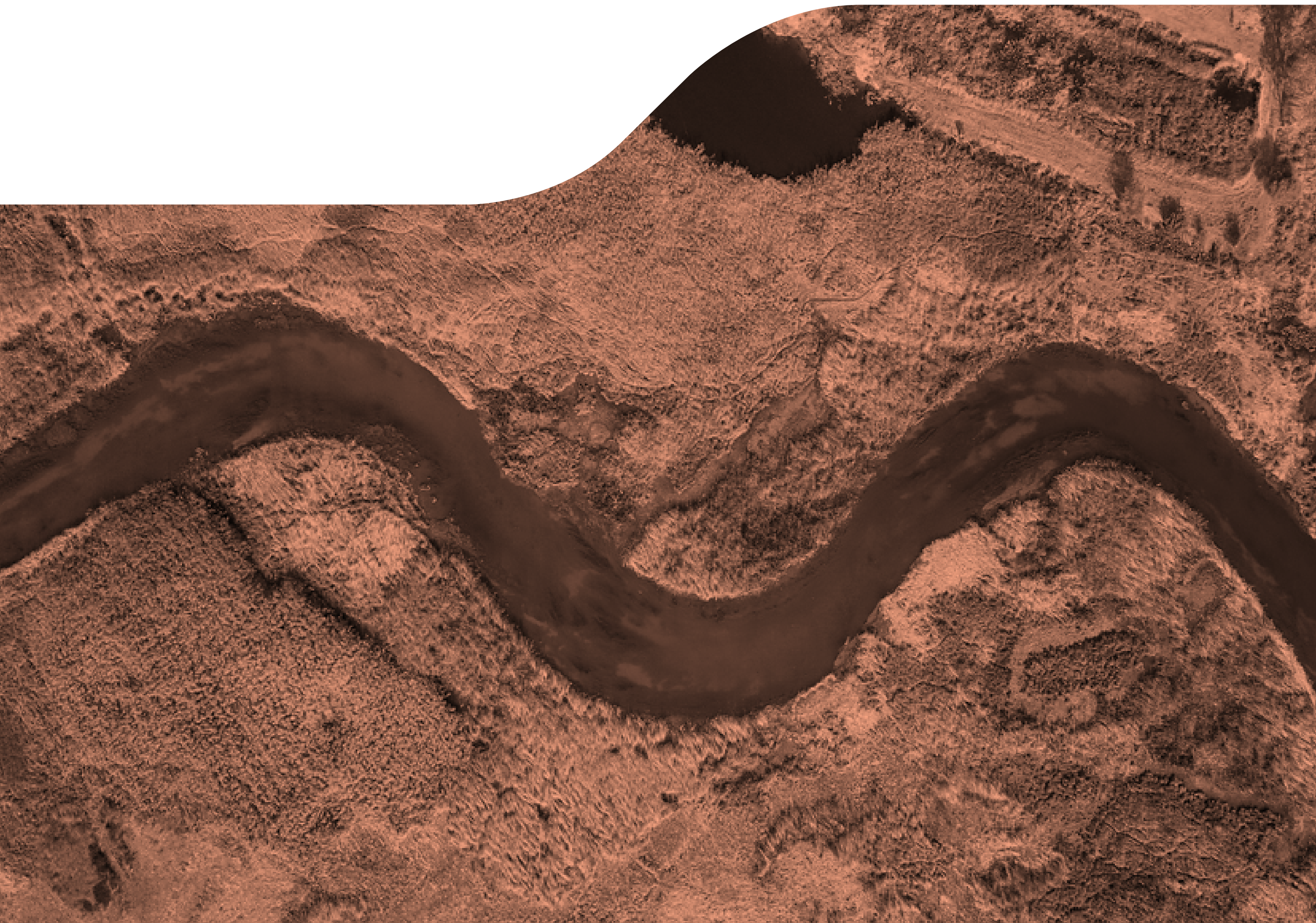
## Key strengths

Scoring improved against Sub-Principle 7.1. Some 35 members scored full marks for reporting against all ClimateWise Sub-Principles, while 33 scored full marks for a timely submission. Almost all members scoring full marks for Sub-Principle 7.1 are insurers.

## Recommended areas for development

All members should publish their ClimateWise Principles report to encourage appropriate disclosure of climate-related activities and demonstrate their commitment to transparency.

Members should continue to incorporate the key elements of their ClimateWise Principles report in their annual financing reporting, in line with TCFD recommendations.



# Appendix 2:

## Scoring methodology

### The scoring system is a helpful benchmark for members to encourage continuous improvement.

Evidence has been considered based on the quality and relevance of the activities being conducted. ClimateWise Principles are weighted based on relevancy by organisational category: Professional Bodies and Associations, Insurers, Brokers, Risk Modelers, Reinsurers, Corporation of Lloyd's and Loss Adjustors. The scoring process is as follows.

Each level and planned activity receives a maximum of two points, as below:

0 – No evidence provided
1 – Partial evidence
2 – Sufficient evidence

The maximum score available for each Sub-Principle is dependent on the number of levels within that Sub-Principle. The number of levels within each Sub-Principle is not fixed. Hence, some Sub-Principles contain more levels than others, as noted in the figures presented in Appendix 1 for each Principle.

Scores are totaled at a Principle level and weighted accordingly, based on member organisational type, to provide an overall percentage score. As a result, members providing evidence in areas where more weight is assigned achieve higher scores.

Members should aim to provide evidence against all the ClimateWise Principles. However, there is an option for members to request exemption from Sub-Principles if appropriate. Exemptions to Sub-Principles 2.2 and 2.3 were provided to three members, and exemptions to Sub-Principle 7.2 were provided to four different members reporting for the first time.

The Principles independent review process is outlined to the right.

### The scoring process:

**1. Detailed review of ClimateWise submissions**
Members submitted their reports and supporting documents to CISL; thereafter, the documentation was reviewed and scored by the Deloitte independent review team, using the aforementioned methodology described. Each submission was treated as final.

**2. Distribution of initial feedback**
An initial feedback form was shared with each member which gave their initial score against each of the seven Principles, narrative feedback on their performance and their initial ranking across the membership base.

**3. Discussion with members**
Following the distribution of the initial feedback, an optional clarification call was offered to certain members by the independent reviewer. This happened when there was a material decline in a member's total or individual Principle scores and, where relevant, to provide clarifications on submitted evidence. Additional clarifying evidence was accepted at the independent reviewer's discretion.

**4. Reassessment of score**
Some member scores were then amended as a result of the clarification discussions and the review of additional evidence provided by the member.

**5. Distribution of final feedback and scores**
A final feedback form was then shared with each member which included the breakdown of the final score compared with average and prior year membership score, an analysis of key strengths and suggested areas for further development by Principle and Sub-Principle and graphs showing performance relative to other members overall and, where possible, by member type. A final insight call with the independent reviewer was then offered to all members to discuss final feedback and insights from the review.

**Note on scoring for the Corporation of Lloyd's and associated managing agents:**
This year also saw Lloyd's managing agents submit reports individually rather than under an overall Lloyd's (Corporation and Market) banner. In the previous year's reporting, the following organisations were assessed as part of an overall Lloyd's membership: Corporation of Lloyd's, Beazley, The Hartford, MS Amlin, TMK, RenaissanceRe Syndicate Management and QBE Insurance Group. This year, the aforementioned members were assessed individually and included in reporting results as individual members, with the appropriate scoring methodology for their member type used.

**Note on threats to independence:**
In line with auditing standards on threats to independence, for those members for which the independent reviewer was also their audit provider, written feedback and insight calls were distributed and conducted by the ClimateWise secretariat.

# Appendix 3:

## Member ranking

| Anonymised member | Score 2022 | Rank 2022 | Score 2021 | Rank 2021 | Score 2020 | Rank 2020 |
|---|---|---|---|---|---|---|
| A | 98% | 1st | 90% | Joint 2nd | 89% | 2nd |
| B | 91% | 2nd | 87% | 4th | 83% | 3rd |
| C | 90% | Joint 3rd | 90% | Joint 2nd | 82% | 4th |
| D | 90% | Joint 3rd | 85% | 6th | 80% | 5th |
| E | 90% | Joint 3rd | 86% | 5th | 60% | Joint 14th |
| F | 89% | 6th | 93% | 1st | 92% | 1st |
| G | 88% | Joint 7th | 83% | Joint 7th | 78% | Joint 6th |
| H | 88% | Joint 7th | 83% | Joint 7th | 78% | Joint 6th |
| I | 85% | 9th | | N/A | | N/A |
| J | 84% | 10th | 82% | 9th | 71% | 8th |
| K | 83% | 11th | 72% | 11th | 66% | 12th |
| L | 77% | 12th | 79% | 10th | 64% | 13th |
| M | 75% | Joint 13th | | | | |
| N | 75% | Joint 13th | 52% | 20th | 45% | 18th |
| O | 74% | 15th | | N/A | | N/A |
| P | 73% | 16th | | N/A | | N/A |
| Q | 72% | Joint 17th | 68% | 12th | 68% | Joint 10th |
| R | 72% | Joint 17th | | N/A | | N/A |
| S | 71% | 19th | 57% | Joint 16th | 46% | 17th |
| T | 69% | Joint 20th | | N/A | | N/A |
| U | 69% | Joint 20th | 61% | Joint 13th | 47% | N/A |
| V | 66% | Joint 22nd | | N/A | | N/A |
| W | 66% | Joint 22nd | 41% | Joint 22nd | 58% | 16th |
| X | 63% | 24th | | N/A | | N/A |
| Y | 60% | 25th | 56% | 17th | 34% | 20th |
| AA | 59% | 26th | 58% | 15th | | N/A |
| AB | 58% | 27th | | N/A | | N/A |
| AC | 54% | 28th | 57% | 17th | 69% | 9th |
| AD | 53% | 29th | | N/A | | N/A |
| AE | 51% | 30th | | N/A | | N/A |
| AF | 46% | 31st | 55% | 18th | 38% | N/A |
| AG | 44% | 32nd | | N/A | | N/A |
| AH | 42% | 33rd | 41% | Joint 22nd | 60% | Joint 14th |
| AI | 40% | 34th | 44% | 21st | | |
| AJ | 36% | 35th | | N/A | | N/A |
| AK | 34% | 36th | 36% | 24th | | |
| AL | 15% | 37th | 9% | 25th | 25% | 21st |

# Appendix 4:

## Score distribution

| Principle | Sub-principle | | Level | Score 0 | Score 1 | Score 2 |
|---|---|---|---|---|---|---|
| 1 Be accountable | 1.1 | Ensure that the organisation's board is working to incorporate the Principles into business strategy and has oversight of climate risks and opportunities | 1 | 1 | 6 | 30 |
| | | | 2 | 5 | 5 | 27 |
| | | | 3 | 3 | 13 | 21 |
| | 1.2 | Describe management's (below board-level responsibility) role in assessing and managing climate-related issues | 1 | 2 | 4 | 31 |
| | | | 2 | 1 | 6 | 30 |
| | | | 3 | 2 | 11 | 24 |
| | Demonstrating planned activities | | | 11 | 10 | 16 |
| 2 Incorporate climate-related issues into our strategies and investments | 2.1 | Evaluate the implications of climate change for business performance (including investments) and key stakeholders | 1 | 3 | 12 | 22 |
| | | | 2 | 3 | 10 | 24 |
| | | | 3 | 2 | 16 | 19 |
| | | | 4 | 8 | 11 | 18 |
| | 2.2 | Measure and disclose the implications of climate-related issues for business performance (including investments) and key stakeholders | 1 | 7 | 11 | 16 |
| | | | 2 | 15 | 14 | 5 |
| | | | 3 | 10 | 17 | 7 |
| | | | 4 | 16 | 6 | 12 |
| | | | 5 | 16 | 6 | 12 |
| | 2.3 | Incorporate the material outcomes of climate risk scenarios into business (and investment) decision making | 1 | 6 | 7 | 21 |
| | | | 2 | 7 | 9 | 18 |
| | | | 3 | 8 | 12 | 14 |
| | | | 4 | 10 | 11 | 13 |
| | Demonstrating planned activities | | | 8 | 13 | 16 |
| 3 Lead in the identification, understanding and management of climate risk | 3.1 | Ensure processes for identifying, assessing and managing climate-related risks and opportunities are integrated within the organisation (including investments) | 1 | 1 | 9 | 27 |
| | | | 2 | 2 | 6 | 29 |
| | | | 3 | 5 | 3 | 29 |
| | | | 4 | 6 | 10 | 21 |
| | 3.2 | Support and undertake research and development to inform current business strategies (including investments) on adapting to and mitigating climate-related issues | 1 | 2 | 5 | 30 |
| | | | 2 | 4 | 13 | 20 |
| | | | 3 | 5 | 14 | 18 |
| | Demonstrating planned activities | | | 14 | 12 | 11 |

| Principle | Sub-principle | | Level | Score 0 | Score 1 | Score 2 |
|---|---|---|---|---|---|---|
| 4 **Reduce the environmental impact of our business** | 4.1 | Encourage our suppliers to improve the environmental sustainability of their products and services and understand the implications these have on our business | 1 | 5 | 7 | 25 |
| | | | 2 | 5 | 18 | 14 |
| | | | 3 | 11 | 16 | 10 |
| | 4.2 | Disclose our Scope 1, 2 and 3 GHG emissions using a globally recognised standard | 1 | 2 | 3 | 32 |
| | | | 2 | 9 | 6 | 22 |
| | | | 3 | 4 | 15 | 18 |
| | | | 4 | 3 | 9 | 25 |
| | 4.3 | Measure and seek to reduce the environmental impacts of the internal operations and physical assets under our control | 1 | 3 | 15 | 19 |
| | | | 2 | 13 | 13 | 11 |
| | | | 3 | 12 | 14 | 11 |
| | | | 4 | 23 | 9 | 5 |
| | | | 5 | 3 | 10 | 24 |
| | 4.4 | Engage our employees on our commitment to address climate change, helping them to play their role in meeting this commitment in the workplace and encouraging them to make climate-informed choices outside work | 1 | 2 | 10 | 25 |
| | | | 2 | 11 | 19 | 7 |
| | | | 3 | 15 | 20 | 2 |
| | Demonstrating planned activities | | | 5 | 17 | 15 |
| 5 **Inform public policymaking** | 5.1 | Promote and actively engage in public debate on climate-related issues and the need for action. Work with policy makers locally, regionally, nationally and internationally to help them develop and maintain an economy that is resilient to climate risk | 1 | 2 | 7 | 28 |
| | | | 2 | 18 | 11 | 8 |
| | | | 3 | 8 | 8 | 21 |
| | 5.2 | Support and undertake research on climate change to inform our business strategies and help to protect our customers' and stakeholders' interest. Where appropriate, share this research with scientists, society, business, governments and NGOs in order to advance a common interest | 1 | 5 | 12 | 20 |
| | | | 2 | 6 | 14 | 16 |
| | | | 3 | 11 | 12 | 14 |
| | Demonstrating planned activities | | | 15 | 12 | 10 |
| 6 **Support climate awareness amongst our customers/clients** | 6.1 | Communicate our beliefs and strategy on climate-related issues to our customers/clients | 1 | 1 | 4 | 32 |
| | | | 2 | 12 | 10 | 15 |
| | | | 3 | 24 | 6 | 7 |
| | 6.2 | Inform our customers/clients of climate-related risk and provide support and tools so that they can assess their own levels of risk | 1 | 10 | 9 | 18 |
| | | | 2 | 3 | 12 | 22 |
| | | | 3 | 9 | 12 | 16 |
| | Demonstrating planned activities | | | 16 | 12 | 9 |
| 7 **Enhance reporting** | 7.1 | Submission against the ClimateWise Principles | 1 | 0 | 2 | 35 |
| | | | 2 | 1 | 3 | 33 |
| | 7.2 | Public disclosure of the ClimateWise Principles as part of our annual reporting | 1 | 11 | 6 | 16 |
| | | | 2 | 3 | 4 | 26 |

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