

The 2024

# Sustainable Insurance Roadmap & Report

A practical guide to insurance industry progress, best practices and action on the road to a more sustainable future



**BETTER INSURANCE**  
NETWORK

Supported by:

 **OliverWyman**

 **NEAM** New England  
Asset Management

## About this publication

The Sustainable Insurance Roadmap & Report builds on 18 months of research by Better Insurance Network. The objective is to provide a status report on the non-life (re)insurance industry's progress on implementing sustainability, and a guide to help insurance professionals benchmark and refine their own sustainability strategies.

This publication aims to:

- Define the role of insurance in supporting the transition to a more resilient, more sustainable, low carbon world;
- Establish key sustainability-related risks, challenges and opportunities for (re)insurers;
- Assess what progress is being made by (re)insurers in these key areas;
- Identify common approaches and best practices among market-leading companies;
- Recommend actions insurers can take today to implement sustainability;
- Develop goals for the industry in 2024 that, if met, will accelerate progress.

The research included dozens of interviews, focus groups and panel discussions conducted between July 2022 and January 2024. Participating organisations included: Ageas, Allianz, Aon, Association of British Insurers, Argo Group, Aviva, AXA, AXA XL, Axis, Beazley, Canopus, Conduit Re, Convex, Crawford & Co, Fidelis MGU, Gallagher Re, HDI, Howden, Insurance Development Forum, Kita, Liberty Speciality Markets, Lloyd's Market Association, LV, Marsh, Moody's Analytics, Munich Re, New England Asset Management, Oliver Wyman, Oxbow Partners, RenRe, Swiss Re, UNEP FI, Victor Insurance, WTW and Zurich.

This publication was produced with support from Oliver Wyman and New England Asset Management. All content in this report is authored by Better Insurance Network unless otherwise stated.

# EXECUTIVE SUMMARY



# Executive summary

When Better Insurance Network launched in January 2022, a growing number of (re)insurance companies recognised that a combination of drivers was pushing them to implement sustainability measures in the years ahead, but only the most progressive firms had a strong grip on what that meant in practical terms.

In the two years that followed, the situation evolved rapidly. There is still a broad spectrum of approaches, appetites and maturities across the industry. However, most companies have moved from asking “what do we need to do and why?” to “how do we do it and when?”. The wheels of change are in motion and some have made significant strides in embedding sustainability into their business models and corporate culture.

In section 1 of this report, we reiterate the key drivers for (re)insurers to implement sustainability, and why this represents a generational opportunity. In section 2, we identify eight high priority ‘Action Areas’ for (re)insurers and what the next steps look like. In section 3, we provide a series of ‘Action Guides’ which report on emerging best practices and practical actions (re)insurers can take to support their efforts. Finally, in section 4, we propose 10 near-term goals we believe will help accelerate progress among (re)insurers in support of the transition to a more sustainable world.

## The Sustainability Opportunity (section 1)

The world faces multiple systemic threats and challenges including global warming, resource depletion, nature degradation and numerous related socio-economic risks. Insurance has a key societal role to play in addressing many of these challenges and supporting the transition to a more sustainable economy through risk transfer, investment capital, risk advisory services, client engagement and resilience-building initiatives.

Beyond moral obligation, there is a strong business case for implementing sustainability. Drivers include:

- Increasing sustainability-related reporting requirements
- Rising stakeholder expectations and reputational risk
- The need to protect balance sheets from emerging risks
- Improving risk understanding and decision-making
- Seizing on opportunities in the economic transition
- Remaining competitive in a changing world
- Attracting young talent

Many of the world’s top risks are climate and sustainability-related and the risk landscape is rapidly evolving. Beyond escalating weather-related losses, new climate-related risks are emerging including transition and litigation risks. Mitigating and building resilience against these risks is critical to maintain profitability and asset insurability.

Many of the biggest opportunities to build new revenue streams are also climate and sustainability-related, including developing new products and solutions to de-risk the transition and support the scale-up of renewables, clean tech and the carbon markets, for example.

## Action Areas and Guidance (sections 2 and 3)

Sustainability poses a broad range of implementation challenges and opportunities. Here are eight priority areas:

### Progressing on Net Zero

To align with global or corporate Net Zero targets, insurers need to drastically reduce emissions in underwriting, claims and investments - a huge and complex task which demands tangible progress today.

Key actions:

- Measure and report on Scope 1, 2 and 3 emissions
- Set science-based portfolio decarbonisation targets
- Engage with and incentivise insureds, investees and suppliers
- Tilt underwriting and investment portfolios towards lower emission clients
- Develop a strategy for driving down claims emissions

### Embracing nature-positive insurance

The degradation of nature threatens large sections of the economy and, by extension, (re)insurance revenues and profitability. Meanwhile, impending nature-related disclosure requirements and a global agreement to protect and restore 30% of land and marine areas by 2030 puts the onus on nature risk assessment and the development of nature-based solutions.

Key actions:

- Conduct a nature-related materiality assessment, identifying hotspots for risks, impacts and dependencies, as well as opportunities
- Engage clients on their risks, impacts and dependencies
- Bring nature-related considerations into underwriting, claims and investment decisions and product design

## Operationalising ESG data strategy

Data is a critical enabler of progress on sustainability. Capturing and embedding environmental, social and governance (ESG) data in underwriting is increasingly mission critical, but the ESG data landscape is highly inconsistent and fragmented. (Re)insurers must develop a robust ESG data strategy and operationalise the data they collect.

Key actions:

- Identify ESG data needs and relevant sources
- Embed ESG data in underwriting decision-making
- Collaborate internally and externally to drive standardisation
- Explore links between ESG data and loss ratios/pricing

## Enhancing climate risk understanding

(Re)insurers have understood physical hazards and exposures for decades, but with catastrophe losses on an upward trend, climate science evolving rapidly, new climate-related risks emerging and historical models under increasing scrutiny, (re)insurers need to develop and implement a robust, holistic view of climate risk.

Key actions:

- Conduct a baseline assessment of climate exposures
- Incorporate a broad range of climate risk factors into decision-making and exposure management
- Overlay a climate risk lens across all classes of business

## Building climate resilience

The impacts of climate change will worsen before they improve, so insurers need to support the scale-up of resilience and adaptation efforts. There is a compelling business case for this - Oliver Wyman estimates closing the protection gap through resilience initiatives equates to a \$71bn insurance revenue opportunity, while Zurich has said every \$1 invested in flood resilience saves \$5 in future insured losses.

- Embed resilience and adaptation in underwriting and claims strategies
- Ramp up investment, education and advocacy

## UN Sustainable Development Goal (SDGs) alignment

Insurance has a key role to play in meeting multiple UN SDGs, both directly (e.g. through affordable insurance solutions) and indirectly (e.g. financing the energy transition). SDG impacts needs to be formalised within insurance business models.

- Identify priority SDGs and embed targets within sustainability strategy
- Implement actions to support SDG impact within business processes

## Scaling the energy transition

Insurance investment capital, risk financing and advisory capabilities will play a critical role in unlocking growth in renewables and new clean technologies. (Re)insurers must demonstrate increased risk appetite and think more creatively about how to tackle novel risks for which historical loss data and industry scale is lacking.

Key actions:

- Upskill underwriting teams to take on emerging risks
- Allocate innovation capital with a view to making returns over a longer-term horizon
- Collaborate with brokers and competitors to develop new risk financing structures

## Making a real world impact today

While it's understandable (re)insurers are focusing significant efforts on laying the groundwork for increased disclosure and long-term transformation projects, this cannot distract from the need to make tangible, real-world impacts in each of these action areas today.

## Goals for 2024-5 (section 4)

Better Insurance Network has identified 10 near-term goals for the industry which will help accelerate the transition to a more sustainable world through tangible, immediate actions:

1. **Ramp up engagement on decarbonisation**
2. **Mainstream resilience & adaptation within insurance business models**
3. **Get creative to unlock capital for climate innovation**
4. **Develop a standardised approach to Scope 3 emissions measurement**
5. **Get a grip on sustainability in the claims process**
6. **Develop tangible customer incentives**
7. **Deepen exploration of ESG-linked pricing models**
8. **Get moving on nature risk assessment and solutions**
9. **Align insurance business models with UN Sustainable Development Goals**
10. **Develop a roadmap for de-risking the agri-food system transition**

# Contents

<b>1 The sustainable insurance opportunity</b>	<b>7</b>
Systemic challenges and the role of insurance	8
Insurance initiatives & global goals	11
Sustainability drivers for insurers	12
The sustainability risk landscape	14
Opportunities in the transition	15
<b>2 Action areas for insurers</b>	<b>16</b>
Progressing on Net Zero	17
Embracing nature-positive insurance	18
Operationalising ESG data strategy	19
Enhancing climate risk understanding	20
Building climate resilience	21
UN SDG alignment	22
Scaling the energy transition	23
Making a real world impact today	24
<b>3 Action Guides</b>	
<b><i>Lever 1: Underwriting</i></b>	<b>26</b>
Navigating a path to Net Zero	27
Assessing nature risks & impacts	30
Developing nature-based solutions	31
Operationalising ESG data	32
Materiality assessments	34
Sustainable claims management	35
Innovating products & solutions	37
<b><i>Lever 2: Investments</i></b>	<b>39</b>
Developing a sustainable investment strategy	40
Impact investment	42
Green, social & sustainable bonds	43
<b><i>Lever 3: Operations</i></b>	<b>46</b>
Operational sustainability	47
Carbon offsetting	49
<b>4 Goals for 2024-5</b>	<b>50</b>
Goals for Insurers	51



# 1 THE SUSTAINABLE INSURANCE OPPORTUNITY

# Systemic challenges and the role of insurance

In a rapidly changing risk landscape, (re)insurers are increasingly implementing sustainability into their strategies, business models and processes. At the same time, the insurance industry has a critical role to play in supporting the transition to a more sustainable world. But what does sustainability actually mean?

A common definition of sustainability is “fulfilling the needs of current generations without compromising the needs of future generations”. Sustainability is often described as having three core pillars: environmental, social, and economic.

**Environmental** sustainability focuses on tackling climate change, protecting nature, and conserving Earth’s natural resources. A key part of this is maintaining the balance between human activities and Earth’s natural systems to ensure their long-term health and viability.

**Social** sustainability is about ensuring we live in a fair and equitable society where everyone has access to basic needs, social justice and human rights now and into the future.

**Economic** sustainability focuses on maintaining a strong and stable economy, and ensuring the availability of resources and opportunities for future generations to thrive.

Many of the natural, economic and social systems that hold our society together are under extreme pressure, threatening global stability.

Sustainability is a broad, complex topic. At its heart is the need to reimagine human society to address a raft of system pressures and existential threats. These include climate change, global warming, resource exploitation and nature degradation - all of which threaten cascading social and economic impacts, from widening inequality and poverty to deteriorating human wellbeing, forced migrations, business losses, economic shocks and socio-political volatility.

According to the World Economic Forum, five of the six most severe risks to global businesses over the next decade<sup>1</sup> are environmental, with failure to mitigate and adapt to climate change identified as number one and two. The fifth biggest risk, large scale involuntary migration, is also linked to the impacts of climate change.

If these threats are left unchecked, the world will become less habitable and less insurable. As the (re)insurance industry is built on risk, it is logical that sustainability has risen rapidly up the agenda for many (re)insurers.

## SYSTEMIC THREATS

### Climate change

The average global temperature over the last decade was the highest in 125,000 years<sup>2</sup>. Glacial retreat, sea level rise, ocean acidification, ocean warming are at levels not seen in thousands of years. Atmospheric carbon dioxide concentration is unprecedented in two million years.

### Resource exploitation

Rapid growth in human population, urbanisation, industrialisation, production and consumption since the 1950s has created an unsustainable demand for energy, food, water and natural resources.

### Nature degradation

Humans have wiped out around 70% of all wildlife since 1970<sup>3</sup> (at an extinction rate 100-1000x higher than the natural baseline). Ecosystems are complex and interconnected, so the degradation of nature has wide-reaching implications both for planetary stability and human prosperity (e.g. food production, raw materials).

### Planetary tipping points

Several of the biophysical systems which regulate the Earth’s climate are under extreme pressure and have already reached dangerous tipping points<sup>4</sup>. If these systems collapse, we are in uncharted territory and have no way of predicting the planetary impacts. Worryingly, the Intergovernmental Panel on Climate Change warns these changes are accelerating faster than projected.

### Socioeconomic implications

Climate change threatens our food, water and resource security, and will impact the poorest most, widening inequality and leading to involuntary migrations. This could lead to social unrest and economic disruption.

1. World Economic Forum

2. Intergovernmental Panel on Climate Change

3. WWF

4. World Economic Forum



## Systemic solutions

There is a future scenario in which we limit the impacts of climate change, restore nature and build a cleaner, more efficient and fairer world. We know the solutions that are required, the global frameworks to implement them have been laid out and investment and implementation work is underway - albeit not at the pace required.

One obvious action area is **decarbonisation**. The IPCC is unequivocal that human activity is a key driver of global warming. It is therefore essential to phase out fossil fuels and accelerate the scale-up of renewables, carbon capture and other clean technologies to avoid the worst effects of climate change.

Another is **restoring nature**. According to the World Economic Forum, over half of the world's GDP is at risk due to its dependence on natural capital and the ecosystem services nature provides (e.g. benefits like food, water, materials, etc.) so one of the most important changes we can make is to put a value on nature's assets and the costs of degrading them.

**Nature-based solutions** will also be essential in tackling climate change. The destruction of ecosystems makes us more vulnerable to extreme weather events while

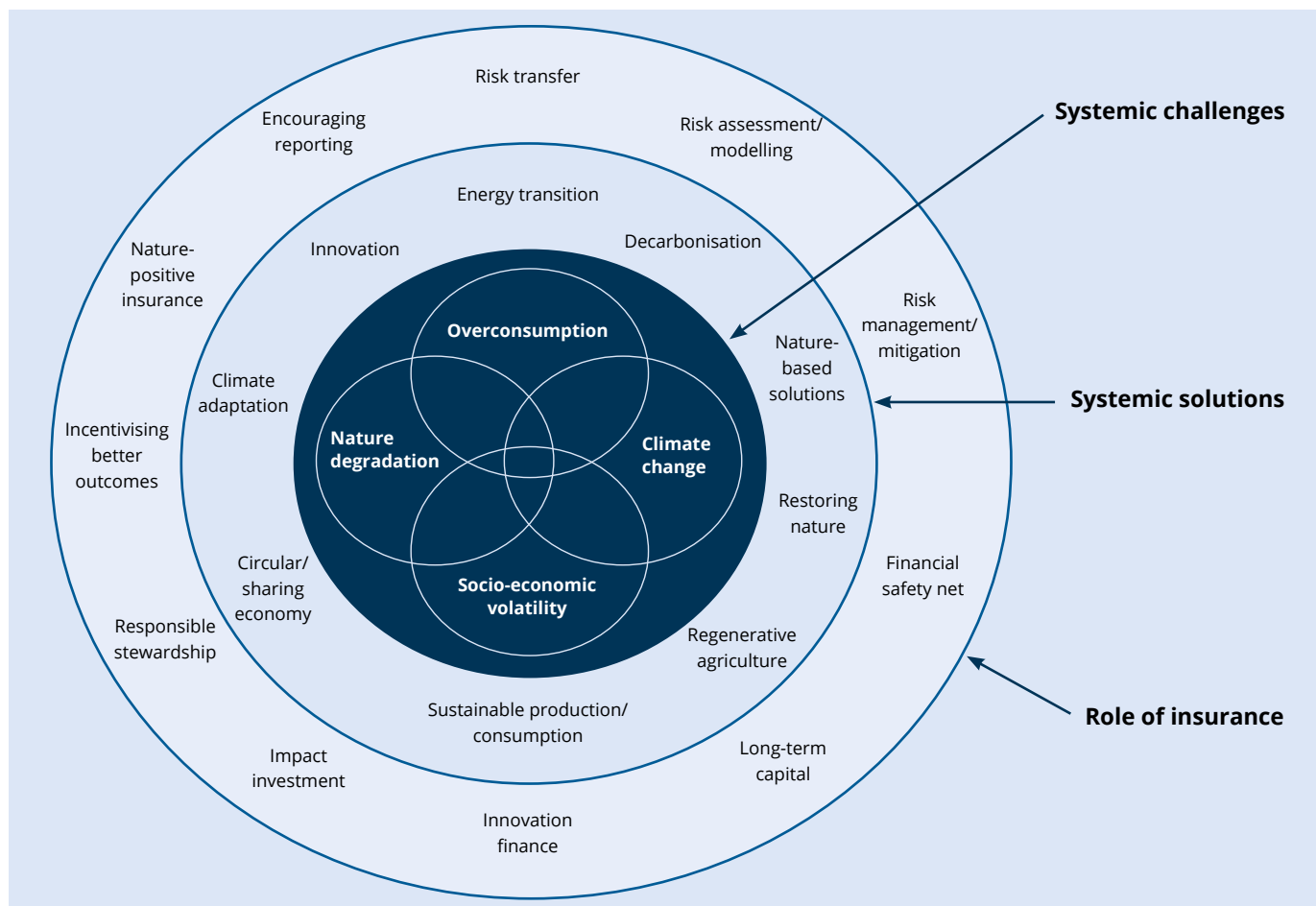
natural carbon sinks and defence systems like forests, soils and wetlands have a huge role to play in limiting global warming and protecting human lives and livelihoods.

**Climate adaptation and risk mitigation** are essential, as many of the effects of climate change are now unavoidable. According to the IPCC, investment in climate mitigation initiatives needs to increase by three to six times from today's levels by 2030, and there is a clear business case for making this investment; Zurich estimates \$1 invested in flood protection saves \$5 in future losses.

We also need to rethink how we produce and consume. That means building a **circular economy** in which regeneration, restoration and recycling are built into value chains and product life cycles rather than resources being continuously extracted, used in production, consumed and discarded as waste.

Many other **systemic changes** are needed, including re-imagining how we travel and eat, as well as revolutionising agriculture to intensify yields, build resilience and replenish nature. Massive levels of **innovation** and **collaboration** are going to be needed to tackle these challenges, both of useful solutions and financial structures to support them. This is where insurance can play a vital role.

## Systemic challenges, solutions and the role of insurance



## The role of insurance

As multi-trillion dollar investors and underwriters of every segment of the economy in almost every location, the insurance industry has a central role to play in tackling risks and building resilience. It can also leverage its vast capital resources and influence to support the scale-up of new technologies and steer businesses and consumers towards more sustainable practices.

Insurance provides a safety net for people, communities and businesses in the event of financial shocks, as well as long-term financing which underpins the majority of economic activity. As both investors and underwriters, (re)insurers can help unlock the capital needed to catalyse innovation and help accelerate the growth of emerging clean sectors and sustainable solutions.

(Re)insurers also have a critical role to play as advisors, from providing risk modelling, management and mitigation to helping customers identify their risks and exposures and build resilience. Insurers are also uniquely positioned to incentivise businesses and consumers to make more sustainable choices, as well as encouraging businesses to disclose their sustainability-related risks and impacts.

Given the scale of the risks and the pace of change we are likely to see in the years ahead, implementing sustainability is both a necessity and a generational opportunity for (re)insurers. It may even be essential to maintain the industry's relevance.

## MOST SEVERE GLOBAL RISKS

In 2023, the World Economic Forum ranked the most severe risks to businesses over the next 10 years. The top six are all linked to sustainability:

1. Failure to mitigate climate change
2. Failure of climate-change adaptation
3. Natural disasters & extreme weather events
4. Biodiversity loss & ecosystem collapse
5. Large-scale involuntary migration
6. Natural resource crises

“The insurance industry has to step up and be a proactive enabler of the low carbon transition.”

*Rob Bailey, Oliver Wyman*

Table: **The role of insurance**

Accelerating the transition	Risk management	Supporting customers
Risk transfer	Physical risk transfer	Making sustainable choices
Incentivising transformation	Transition risk transfer	Managing risks
Unlocking innovation capital	Liability risk transfer	Understanding impacts
Impact investment	Risk modelling & advisory	Benchmarking transition plans
Scaling renewables/clean tech	Resilience & adaptation	

## Insurance initiatives & global goals

In recognition of the growing threats to people, planet and profitability, the insurance industry has launched numerous sustainability-focused initiatives, including:

### Principles for Sustainable Insurance (PSI)

Launched by the UN Environment Programme Finance Initiative in 2012, the PSI sets out a broad framework for managing sustainability-related risks and opportunities. The PSI comprises four overarching themes:

- establishing processes to identify and assess ESG impact in underwriting portfolios and integrating ESG into underwriting decision-making;
- working with clients and business partners to raise awareness of ESG issues, manage risks and develop solutions;
- working with governments, regulators and key stakeholders to promote action across society on ESG issues; and
- measuring, monitoring and publicly reporting on progress.

At the time of writing, the PSI had 153 signatory companies, accounting for over a third of global premium volume.

**\$15 trillion** PSI members' combined assets under management<sup>1</sup>

### ClimateWise

A convening body of around 40 (re)insurers and brokers formed in 2007 to align the industry's response to climate-related risks and opportunities. Signatories pledge to incorporate climate-related issues into strategies and investments; lead in the identification, understanding, and management of climate risk; reduce the environmental impact of business; and enhance climate-related reporting.

### Insurance Development Forum (IDF)

Formed in 2013, the IDF's mission is to harness the insurance industry's capabilities to build resilience, promote sustainable development and protect the people, communities and public institutions most vulnerable to disasters and associated economic shocks. Public-private partnerships play a key role in its activities.

### Sustainable Insurance Forum

A collaboration between 36 insurance supervisors (with 92% global insurance market share) to strengthen understanding and responses to sustainability issues through research, knowledge-sharing on supervisory practices, policy engagement and joint supervisory statements.

### Sustainable Markets Initiative (SMI) Insurance Task Force

A group of 20 leading (re)insurance CEOs who have pledged to catalyse the global transition to a sustainable future through the creation of innovative and new insurance products, services and risk management support.

## GLOBAL CONTEXT

The insurance industry's efforts broadly align with global goals and frameworks, including:

### UN Sustainable Development Goals

17 key action areas and 168 targets to deliver "peace and prosperity for people and the planet, now and into the future" under the 2030 Agenda for Sustainable Development, adopted by UN member states in 2015. Goals include ending poverty and climate action.

### The Paris Agreement

A legally binding international treaty adopted by 196 parties at COP21 in 2015 to hold the increase in the global average temperature to well below 2°C degrees above pre-industrial levels and pursue efforts to limit the increase to 1.5°C degrees. To achieve this, greenhouse gas emissions must peak before 2025 and decline 43% by 2030.

### The Kunming-Montreal Global Biodiversity Framework

In 2022, the UN reached a landmark equivalent deal for nature signed by 195 countries, whose numerous goals include bringing the loss of areas of high biodiversity importance to close to zero, restore 30% of degraded ecosystems and conserve and manage 30% of land, inland water, coastal and marine areas by 2030.

### The Science Based Targets Initiative

A framework and methodology for companies to set GHG reduction targets aligned to the Paris target. The SBTi provides sector-specific guidelines, helping companies set and validate science-based targets by sector. In 2023, the SBTi began to expand its scope to include nature-related disclosures.

1. UNEP, 2023

## Sustainability drivers for insurers

Against the backdrop of systemic challenges and change, (re)insurers face multiple defensive and proactive drivers for implementing sustainability.

### Regulation

There is a raft of sustainability and climate-related disclosure requirements in the pipeline for (re)insurers in Europe, the UK, the US and various other major economies which will require them to capture data on a range of factors including climate risks and exposures, emissions, transition plans, in some cases, social and nature-related risks and impacts.

Complying with these rules will create a significant reporting burden but the process will generate reams of valuable information that can inform both sustainability and broader business strategy.

### Reputational risk

(Re)insurers already face growing scrutiny from shareholders, customers, employees, NGOs and a variety of other stakeholders who expect businesses to be run ethically but also with a sense of purpose, particularly on climate change and climate action.

Rebalancing underwriting and investment portfolios away from fossil fuels is a complex long-term project for insurers and it needs to be carefully managed. However, failing to act today will not only diminish our chances of avoiding the worst impacts of climate change but could also pose significant reputational risk. Given the industry's enormous influence in the economy, (re)insurers risk being viewed as perpetrators of the problem rather than pioneers of the solution.

Greenwashing (overstating sustainability credentials) and greenhushing (failing to disclose) also pose a growing reputational risk and could increasingly manifest as financial risks in the form of climate litigation or regulatory penalties. It is therefore essential (re)insurers understand their own sustainability risks and impacts and start making tangible progress on these issues to avoid accusations of greenwashing and to maintain, and in some cases enhance, their brand reputations.

### Protecting the balance sheet

Failing to respond to sustainability-related trends poses multiple threats to financial performance. Insured losses associated with climate change and extreme weather events are rising year on year<sup>1</sup>, threatening insurance business models and the insurability of certain assets in certain locations.

In 2023, a number of (re)insurers withdrew capacity from catastrophe-prone areas including Florida, California and Australia citing an inability to insure certain perils profitably. As the impacts of climate change intensify, the challenge of uninsurable assets could be felt in multiple classes of business as social and economic impacts cascade through society. On the liability side, for example, climate litigation is expected to create new exposures which are difficult to predict.

### SELECTED CLIMATE-RELATED DISCLOSURES

(with implementation dates)

- **PRA SS3/19** (UK, live)  
Embedding climate risks in risk management frameworks
- **UK Sustainability Disclosure Requirements** (UK, 2024-5)  
Rules and standards for sustainable investing
- **EU Taxonomy** (live)  
Classification system for 'sustainable' activities
- **Corporate Sustainability Reporting Directive (CSRD)** (EU, 2024-5)  
Mandatory reporting for large firms
- **Sustainable Finance Disclosure Regulation (SFDR)** (EU, live)  
Disclosure rules for financial services firms
- **SEC proposed climate disclosure rules** (US, pending)  
Proposed climate-related reporting for SEC-registered firms
- **NAIC Climate Risk Disclosure Survey** (US, live)  
Reporting standard for US-domiciled insurers
- **International Sustainability Standards Board (ISSB)** (Global, 2024)  
Standardised (mainly voluntary) climate & sustainability reporting

1. Sigma

(Re)insurers therefore need good quality data and risk models, as well as a robust strategy, to stay on top of the fast-moving and evolving financial exposures related to climate change.

Implementing sustainability at corporate level could also generate material operational savings. Sustainability drives long-term efficiencies, from energy to waste to procurement, and small up front investments to implement more sustainable approaches could save a large organisation significant sums over multiple years – helping the bottom line.

### Understanding your clients and business

The better quality environmental, social and governance data a (re) insurer can capture on clients, particularly their transition risks, the better they know them as risks, which in turn enables them to price and select risk more efficiently and provide solutions that are going to be more valuable to those clients.

If reliable data is obtainable across an entire portfolio, this helps the (re)insurer better understand its own exposures, risks and impacts on the world, leading to more informed strategic decision-making. It also enables (re)insurers to be more responsive and to spot and seize opportunities as they arise in a rapidly changing world.

**\$4 trillion** annual investment required to hit Net Zero by 2050 (IEA<sup>2</sup>)

### Being competitive into the future

Ignoring sustainability today will make it difficult to be relevant and competitive in the future. Whether we successfully transition to Net Zero or fail (and therefore face increasingly severe impacts from climate change), the economy will look very different in 20 years. Maintaining the status quo today because changes feel hard, not business-critical or on a distant time horizon could mean (re)insurers miss out on a raft of game-changing opportunities (see page 14).

Not all companies will want to be first movers on emerging risks and trends. However, will companies that do nothing to evolve still be trusted and established brands in a reimagined economy? How will they compete with market leaders or potential disruptors in 20 years' time? Will they have to scramble to pivot their business models in order to catch up?

Taking a long-term view and aligning business strategy around inevitable changes is common sense and good governance. It will also be good for people and the planet. This is increasingly what customers and talent want to see from companies – and another way sustainability can make (re)insurers more competitive into the future.

## DRIVERS FOR INSURERS TO IMPLEMENT SUSTAINABILITY

### 1. Regulation/reporting

### 2. Protecting your reputation

- Stakeholder expectations
- Pioneers not perpetrators
- Greenwashing/greenhushing
- Related financial exposures

### 3. Protecting the balance sheet

### 4. Understand your clients

- Holistic view of risk
- Provide valuable solutions
- Identify portfolio risks/impacts
- Make more informed decisions
- Respond to changing world

### 5. Long-term competitiveness

- Seize on megatrends
- Align with new economy
- Attract new business/talent

“From increasing reporting requirements to the financial risks of operating in a rapidly evolving risk landscape, there are multiple reasons why sustainability should be front and centre in an insurer’s corporate strategy.”

*Insurer*

2. International Energy Agency

# The sustainability risk landscape

The insurance business is built on managing and transferring risk. However, sustainability trends including climate change and the energy transition are reshaping the risk landscape. Underwriters in all classes of business must enhance their understanding of the physical, transition and liability risks that will affect their portfolios in the years ahead – both to safeguard their financial performance and to help build a more sustainable and resilient future.

## Climate-related physical risks

Climate-related physical risks stem from the increasing frequency and severity of specific weather events and impacts associated with climate change. These include floods, heatwaves, wildfires, rising sea levels and shifts in mean temperatures, as well as systemic threats such as ecosystem collapse, ice sheet melting and rising sea levels.

Underwriters need to recognise both the direct and indirect impacts these risks can have on businesses, communities and the broader economy. As well as physical property damage in exposed locations, portfolios could also be affected by contingent losses or rising claim costs linked to disruption in global supply chains, for example.

## Transition risks in an evolving economy

Transition risks arise from the financial implications of the shift toward a low-carbon economy. These could include, for example, stranded assets in the energy transition; changing risk profiles due to policy shifts or the introduction of sustainable processes and materials; and emerging risks associated with the rapid development and scale-up of new technologies.

(Re)insurers must be vigilant over which sectors and corporates could become vulnerable in the transition, leading to a decline in asset values in the investment portfolio or reduced revenues and profitability in the underwriting portfolio. The transition also presents a raft of opportunities (see page 15), including engaging with clients on their transition plans (see page 29).

## Climate litigation and related exposures

Climate litigation provides a platform for civil society to hold governments and businesses accountable for climate-related actions or inaction. By the end of 2022, around two thirds (1,522)<sup>1</sup> of all climate litigation cases had occurred in the US, though the number of cases was growing rapidly outside of the US, with the UK, EU and Australia seeing the most activity.

(Re)insurers could face directors and officers liability (D&O) and general liability claims from companies subject to climate litigation. The frequency and severity of future climate-related litigation claims is hard to predict and (re)insurers should ensure their wordings are watertight on climate-related liabilities.

## KEY RISK FACTORS

### Physical climate impacts

- Longer droughts
- More frequent flash floods, heavy precipitation, wildfires
- Uncertainty over complex risks
- Emerging non-modelled risks
- Uncertainty = loss volatility

### Transition risks

- Business models impacted by disruptive tech, policy and changing consumer patterns
- Stranded assets
- Changing risk profiles
- Stakeholder transition plans
- Opportunities

### Climate litigation issues

Today:

- Climate rights
- Accountability over commitments
- Preventing fossil fuel extraction
- Protecting carbon sinks
- Corporate liability/duty
- Climate disclosures/greenwashing

Emerging:

- Climate migration
- Pre/post-disaster response
- Non-implementation of court orders
- Class actions by vulnerable groups
- Extraterrestrial cases
- Backlash' cases

“There could be periods when climate change risk becomes really challenging for the whole economy.”  
*Ben Howarth, Association of British Insurers*

1. UNEP

## Opportunities in the transition

Sustainability represents a once-in-a-generation opportunity for (re)insurers to innovate new products and solutions to support clients, build resilience and accelerate the transition.

The energy transition alone is a multi-trillion dollar (re)insurance opportunity, with Swiss Re estimating the massive investment in renewables required to hit Net Zero would generate \$237 billion of insurance premiums between 2022 and 2035<sup>1</sup>.

The transition will create opportunities in virtually every sector of the economy and every class of business. Examples include:

### Insuring emerging risks

A key opportunity - and social imperative - is to provide capacity to enable the scale-up of new solutions in the transition to a low carbon and more sustainable world. This requires both expertise and an appetite for risk, but could generate significant upside.

Transformation in all sectors also creates opportunities to develop and support solutions specifically to de-risk the transition, such as financial structures enabling farms to transition to regenerative methods, for example.

### Expanding existing coverage

(Re)insurers can add value and support the transition by evolving traditional policies to respond to new business models and incentivise more sustainable behaviours.

### Carbon markets

The carbon markets, tipped to grow into a billion-dollar insurance market and beyond, are fertile ground for insurance innovation, evidenced by the launch of a number of carbon specialist insurers.

### Parametrics

Parametrics are a key growth area and are playing an increasing role in closing the protection gap and building resilience. Automatically paying out a predetermined sum based on predefined triggers - such as rainfall volume, earthquake magnitude or a range of non-weather related triggers - parametrics offer fast, simple financial relief to communities that may not otherwise have access to insurance.

### Advisory services

(Re)insurers and brokers possess world-leading data, analytics, modelling and risk advisory capabilities which can be monetised while playing a key role in supporting businesses, governments and communities through the transition.

### Attracting talent

According to KPMG, one in three 18 to 24-year-olds won't work for a company with poor sustainability credentials and one in eight are seeking roles directly related to ESG<sup>2</sup>. Could leading the fight on climate change and other sustainability issues be the key to tackling the insurance industry's deepening talent crisis?

## INSURANCE OPPORTUNITIES

### Emerging risks

- Renewables
- Emerging clean tech
- Transition risks
- Nature-based solutions

### Carbon markets

- Buyer protection
- Reporting/compliance liability
- Project owner liability
- Cyber risk

### Parametrics

- Weather/Nat Cat
- Agriculture
- Public sector
- Commercial property
- Transport disruption
- Cyber outages
- Business interruption

### ESG solutions & incentives

- Risk advisory
- Risk management/modelling
- Expanded coverage/benefits for clients with strong ESG credentials

"Our sector is going to play a major role in the transition to Net Zero and helping those most impacted by climate change. That sounds like really interesting work for talent coming into the industry."

*Ben Howarth, Association of British Insurers*

1. Swiss Re  
2. KPMG

# 2 ACTION AREAS FOR INSURERS





## Progressing on Net Zero

Scientific consensus tells us that to avert the worst impacts of climate change and preserve a livable (and insurable) planet, global warming ideally needs to be limited to 1.5°C above pre-industrial levels, and certainly below 2°C. To achieve this, we need to stop emitting carbon and other greenhouse gases (GHGs) into the atmosphere and transition to a Net Zero economy by 2050<sup>1</sup>.

Net Zero is a state in which greenhouse gas (GHG) emissions are balanced out by the amount of GHGs removed from the atmosphere. This requires emissions to be reduced to as close to zero as possible, and for remaining emissions to be re-absorbed from the atmosphere (e.g. by natural systems like oceans, forests combined with man-made carbon removal technologies).

As underwriters of every sector of the economy, insurance has a pivotal role to play in this transition, and a growing number of (re)insurers have publicly set targets to reach Net Zero by 2050 or before.

For P&C insurers, at least 90% of their emissions exist within the underwriting and investment portfolios (McKinsey estimates this figure could be as high as 99%<sup>2</sup>). So for (re)insurers to truly hit Net Zero, they must go beyond simply eliminating operational emission and also bring the emissions in their underwriting and investment portfolios to Net Zero.

This is an extremely complex challenge, calling for insurers to engage with high emitting clients to reduce their emissions and gradually rebalance portfolios away from high emitting sectors like fossil fuels while supporting the scale-up of low carbon solutions.

To align scope 3 emissions on a 2050 Net Zero trajectory, insurers need to reduce underwriting portfolio emissions by 43% by 2030 compared with a 2019 baseline<sup>3</sup> - a huge task.

This will require (re)insurers to:

- Capture reliable emissions data from insureds, investees and suppliers
- Capture reliable emissions data on their own operations
- Accurately estimate their scopes 1, 2 and 3 emissions
- Set science-based portfolio decarbonisation targets
- Engage with insureds and investees to encourage them to reduce emissions
- Consider bringing incentives and disincentives into insurance solutions
- Rebalance underwriting and investment portfolios towards low carbon sectors and those enabling energy transition

Key challenges to overcome include navigating a fragmented and inconsistent emissions data landscape, managing long-standing relationships with high emitting clients and developing expertise to pivot into emerging sectors.

Opportunities include developing new products and solutions to support the energy transition and the rapidly expanding carbon markets, as well as strengthening client relationships by providing risk advisory services through the transition.

### THE RISE AND FALL OF THE NZIA

Convened by the UN and a group of founding (re)insurers in 2021, the Net Zero Insurance Alliance (NZIA) signatories jointly committed to transition their underwriting portfolios to Net Zero by 2050. At its peak, the NZIA had 30 signatories representing around 15% of global premium volume.

The initiative stalled in 2023 when the threat of legal action from 28 US states over alleged anti-competitive behaviour caused an exodus of firms, including several founding members. At the time of writing was under threat of being wound down.

The NZIA has, however, already helped deliver two important tools to help (re)insurers calculate underwriting-associated emissions and chart their decarbonisation trajectory towards Net Zero (see pages 17-18 for more).

“Insurers have a great sphere of influence. We should talk to clients about where they are on their transition plan, what they need to get to Net Zero, and where we can support them.”

*Insurer*

**45** (re)insurers with restrictions on coal in 2023 (Insure Our Future)

**18** (re)insurers with restrictions on oil & gas in 2023 (Insure Our Future)

1. Intergovernmental Panel on Climate Change (IPCC) Climate Change 2023 Synthesis Report

2. McKinsey, Net-zero underwriting in P&C and the growth at stake

3. The NZIA Target Setting Protocol version 1

**Go to The Path to Net Zero Action Guide on page 27**

## Embracing nature-positive insurance

Nature degradation, biodiversity loss and ecosystem disruption pose serious threats to society and the economy, as well as reducing our resilience against climate change and extreme weather events (see page 8). According to the World Economic Forum, around 50% of global GDP is reliant in some way on nature and according to the European Central Bank, 72% of EU companies are reliant on at least one nature-related service.

Unabated nature degradation will inevitably lead to community and business failures and worsening human health, reducing insurability, insurance revenues and profitability over the long-term. It is therefore essential insurers identify and manage their nature-related risks and begin to embed nature considerations into business-as-usual.

The United Nations Environment Programme (UNEP) calls for 'nature-positive insurance' (NPI), which it defines as "risk management and insurance strategies, approaches, practices, products, services and solutions that address nature-related dependencies, impacts, risks and opportunities in order to value, conserve, restore and wisely use biodiversity and ecosystem services; and to promote economic, social and environmental sustainability".

Drivers for insurers to adopt NPI include:

**1. Impending nature reporting.** (Re)insurers will increasingly be expected to disclose their nature-related risks and impacts under a raft of reporting frameworks including the International Sustainability Standards Board (ISSB). Financial regulators are also considering integrating nature into mandatory stress tests.

**2. Risk management.** Nature degradation and the transition to a nature-positive economy by 2030 under the Kunming-Montreal Global Biodiversity Framework (see page 11) create a range of physical, transition and systemic risks - many of which can be addressed via nature-based solutions.

**3. Impacts are being felt today.** (Re)insurers are already feeling the financial costs of natural catastrophes exacerbated by climate change, while the rapid transition needed to meet 2030 goals poses near-term challenges for businesses.

**4. Opportunities to develop solutions.** Insurance products and financial mechanisms have a crucial role to play in supporting the transition to a nature-positive economy and meeting the urgent need to innovate and scale nature-based solutions.

To implement NPI, (re)insurers must first assess insureds' and investees' interactions with nature, including their risks, impacts, dependencies and opportunities (see page 30 for an underwriting guide). From there, they can build nature considerations into underwriting, claims and investment decisions, and develop insurance and investment solutions to protect and restore nature. Crucially, this calls for nature to be tackled proactively and brought to the heart of every (re)insurer's sustainability strategy today.

### NATURE-POSITIVE INSURANCE

- Conduct materiality assessment
- Engage stakeholders
- Review relevant regulation
- Identify data needs
- Set science-based targets
- Build internal capacity
- Embed in decision-making
- Identify opportunities
- Develop nature-based solutions

### NATURE DEGRADATION: THREATS TO INSURERS

- Mis-pricing coverage/assets
- Loss/claims volatility (e.g. business failures, litigation, human health issues)
- Stranded/devalued assets
- Reduced insurability
- Reduced profitability
- Reduced demand
- Liability/reputational risk

"Natural capital is finite and precious, and insurance business models need to adapt accordingly."  
*Insurer*

## Operationalising ESG data strategy

Data is a critical enabler of progress on sustainability, from understanding and reporting on environmental, social and governance (ESG) risks in investments, underwriting and operations to setting science-based targets and innovating new solutions.

Capturing and embedding ESG data in the underwriting process is becoming increasingly mission critical, driven by a range of defensive, exploratory and proactive drivers (see box). In response, (re)insurers are attempting to capture data on a wide range of ESG factors - though measuring GHG emissions to enable decarbonisation remains a top priority.

Despite ongoing efforts to encourage public companies to disclose more ESG information and to simplify and standardise the alphabet soup of global disclosure frameworks, the ESG data landscape remains highly inconsistent and fragmented. Many blind spots exist.

It is particularly challenging for (re)insurers to capture reliable ESG data on small and private companies and there is a lack of visibility into underlying risks in treaty reinsurance and delegated authority business. (Re)insurers have also raised concerns over the reliability and consistency of third-party ESG ratings.

### Execution and efficiency

Once (re)insurers have captured insureds' ESG data, they need to work out what to do with it. Is it reliable? What does it tell us about the company? Should this information affect underwriting decisions? How should it be implemented in underwriting processes? How should this approach be articulated to clients?

Brokers and insureds are demanding greater standardisation of information requests in the face of a growing administrative burden. They also want more transparency from insurers over how ESG data is being used in the underwriting process. (Re)insurers and brokers agree they need to speak a common language on ESG, and that greater consistency and transparency can only be achieved through collaboration, both internally and with partners and competitors throughout the value chain.

The first step any (re)insurer can take is to develop a robust sustainability strategy and goals. From here, it can identify its ESG data needs. Setting out a clear ambition and committing to taking action – even if only in targeted areas – is now essential.

*“Have a clear vision of what you want the world and economy to look like in 2040 and what your role is in getting there.”*

*Ben Howarth, Association of British Insurers*

[Go to Operationalising ESG Data action guide on pages 32-33](#)

### ESG DATA CAPTURE DRIVERS

#### Defensive drivers

- Regulatory reporting
- Managing reputational risk
- Meeting stakeholder expectations
- Managing financial risks/exposures

#### Exploratory drivers

- Identifying ESG hotspots
- Benchmarking
- Informing underwriting decisions

#### Proactive drivers

- Meeting stated sustainability goals
- Identifying opportunities
- Stewarding client behaviours
- Fulfilling a societal purpose

### ACTION AREAS FOR (RE)INSURERS

1. Define an overarching sustainability strategy
2. Identify where ESG data can serve its goals
3. Identify specific data needs and blind spots
4. Identify and leverage internal data and synergies
5. Determine internal resourcing requirements
6. Determine technology requirements
7. Source relevant ESG data from clients, public and third-party sources
8. Train underwriters on ESG data objectives & processes
9. Embed data capture into underwriting processes

## Enhancing climate risk understanding

(Re)insurers have possessed world class weather and catastrophe modelling capabilities for decades but climate change is shifting the goalposts and casting doubt over the reliability of traditional approaches. With global temperatures and related insurance losses entering uncharted territory, it's essential (re)insurers get as accurate a view as possible of how these evolving risks could affect their portfolios going forward.

Climate risks are complex, interconnected and diverse, encompassing physical, economic and social elements as well as business transition risks. (Re)insurers therefore need to start building a more holistic view of climate risk into decision-making across all classes of business. Benefits of doing this include:

- Enhanced risk selection and pricing
- Reinsurance programme optimisation
- Accurate exposure management/avoiding financial shocks
- Maintaining profitability
- Improved relevancy of climate stress tests
- Enhanced ability to help clients to manage risks
- Delivery of more accurate information to regulators and stakeholders

Failure to stay on top of the rapidly evolving climate risk landscape will expose (re)insurance businesses to unexpected losses and financial performance volatility. Regulators will also increasingly expect (re)insurers to demonstrate they have a credible grip on their climate risks and exposures under various global warming scenarios.

### Challenges to overcome

**Climate science is evolving quickly.** It's easy to find yourself making assumptions based on outdated scenarios and projections. It's therefore important to conduct ongoing reviews of the latest scientific consensus and rigorously assess the credibility of sources.

**Traditional cat models are under scrutiny.** Given the complexity of climate change and the escalation of losses, backwards-looking models are increasingly unfit for purpose.

**The climate analytics landscape is difficult to navigate.** With so many new providers offering data and modelling tools purporting to predict the future, (re)insurers need to fully understand the objectives, datasets and methodologies behind these solutions. These vendors also face the same challenges around the evolving science.

**Uncertainty abounds.** For example, the links between certain perils and climate change are not fully understood. While the correlation between global warming and heat

stress, droughts or flash flooding, for example, are well established, the relationship between climate change and complex hazards like hurricane frequency and severity, for example, is much less clear. Some secondary hazards like storm and wildfire are also evolving in ways (re)insurers do not yet fully understand.

Some climate-related risks are un-modelled, such as ice sheet collapse, ecosystem collapse, planetary tipping points being breached and biophysical systems collapsing. Meanwhile, scientists (and (re)insurers) are still trying to understand how perils like heat stress will transform cities, communities and businesses; transition risks are complex and interconnected; and climate litigation risk is extremely nascent.

When all these factors are considered, there is considerable uncertainty even in generating an accurate picture of exposures today, let alone decades into the future. (Re)insurers need to be aware of the wide-reaching implications of this uncertainty and build coherent strategies for managing these risks and implementing a holistic view of climate risk across their portfolios.

### THREE RECOMMENDED ACTIONS

1. Conduct a baseline climate risk assessment including an assessment of whether the models being used represent the true exposures faced. Business decisions are made based on these models, so they need to be fit for purpose.
2. Incorporate a holistic view of climate risk into models, applying all factors that could affect loss outcomes (e.g. social inflation, resilience-building, climate transition risks, climate litigation risks) in addition to modelled physical perils.
3. Operationalise climate risk data by embedding insights into rating models, underwriting guidelines, exposure management and reinsurance purchasing decisions. As one broker told us, "organisations that can operationalise climate insight will be winners in the transition".

*"Don't overlook transition risk when running climate scenarios - these risks will impact liabilities, premium volumes and claims costs across various lines and sectors."*

*Rob Bailey, Oliver Wyman*

## Building climate resilience

Economic and insured losses linked to climate change are already on an upward trajectory<sup>1</sup>, and with global commitments currently aligning with 2.7°C global warming above pre-industrial levels by 2100<sup>2</sup>, the impacts of climate change will worsen before they improve, so building resilience and adapting to climate change is essential.

Meanwhile, the protection gap is widening<sup>3</sup>, with only 43% of global weather-related losses insured (a \$132 billion protection gap)<sup>4</sup>. With (re)insurance capacity exiting catastrophe-prone markets in the developed world, such as Florida property or wildfires in California and Australia, and insurance penetration extremely low in climate-threatened developing markets like sub-Saharan Africa, building climate resilience is essential to avoid severe economic and social shocks.

Insurance has much to offer to support these efforts. (Re)insurers can, for example:

- Provide risk assessments, engineering and mitigation advisory services
- Provide low-cost insurance coverages to provide a financial safety net and close the protection gap
- Embed incentives in underwriting and claims to encourage customers to build resilience
- Incorporate climate adaptation into 'build-back-better' provisions in the claims process (e.g. more flood-resistant materials, neighbourhood disaster protection, etc.)
- Feed claims data back into underwriting and risk management processes through digitisation
- Educate clients and customers on climate risk
- Provide digital hazard and self-assessment tools for SMEs and retail customers
- Check whether customers are aware of potential exposures during underwriting or claims conversations (which could also lead to cross-selling opportunities)
- Collaborate in public-private partnerships focused on disaster risk financing and climate resilience
- Invest in resilience and adaptation bonds
- Make resilience-focused impact investments

Climate resilience represents a huge business opportunity, with climate adaptation projected to grow into a \$2trillion per year market<sup>5</sup>. Yet historically, resilience-building has tended to sit in a silo within (re)insurance companies, often seen as a philanthropic activity rather than a potential source of revenues. Currently, around 85% of insurers'

sustainability disclosures include quantitative emissions and energy transition targets, but only 10% include quantitative targets on adaptation and resilience<sup>6</sup>.

One obstacle to commitment in this area is the longer-term time horizon and uncertain return on investment associated with resilience-building initiatives. More research is needed into the long-term economic benefits for (re)insurance balance sheets but there is already a compelling business case for bringing resilience and adaptation into mainstream insurance business (for those willing to look beyond the traditional renewal cycle). Making insureds more resilient to climate impacts can only have a positive impact on balance sheet volatility by reducing loss severity and preventing losses; Zurich has conducted an analysis which concluded that every \$1 spent on flood resilience would deliver \$5 in saved insurance losses.

Additionally, proactive measures can increase the insurability of assets, protecting revenue streams for (re)insurers and potentially unlocking new insurance markets by making currently uninsurable assets more attractive risks. Oliver Wyman estimates<sup>7</sup> that by pursuing the UN Race to Resilience agenda the insurance industry can close up to 30% of the existing protection gap, presenting a \$71 billion annual revenue opportunity for insurers while contributing to the resilience of millions of people.

The firm recommends five actions (re)insurers can take to improve climate resilience while reaping strategic benefits:

- Prioritise resilience as a strategic imperative
- Collaborate with the public sector to expand coverage
- Improve the accuracy and availability of climate-related data and analytics
- Create an industry standard around build-back-better
- Advocate for public policies and regulations that support resilience

Given the benefits to society and (re)insurance markets, resilience must clearly play a central role in sustainability and broader business strategies going forward.

*"Resilience and adaptation are largely absent from insurers' climate and sustainability strategies. This is a huge waste of potential, and also bad business."*

*Rob Bailey, Oliver Wyman*

*"In addition to building back better, we should be looking to 'build forward' today to avoid losses in the future."*

*Insurer*

1. Aon  
 2. Intergovernmental Panel on Climate Change  
 3. Swiss Re Institute  
 4. Oliver Wyman  
 5. World Economic Forum  
 6. Oliver Wyman  
 7. Oliver Wyman

## UN Sustainable Development Goal (SDG) alignment

Social impact forms an important part of any corporate sustainability strategy. This is best addressed through the lens of the UN Sustainable Development Goals for 2030 (SDGs) – 17 high level ambitions set out by the UN under which fall 169 specific targets. Their overarching goal is to ensure a transition to a fairer and more sustainable world while leaving no-one behind.

Achieving the SDGs should in theory present many benefits to (re)insurers including:

- Preserving insurable markets
- Opening insurance up to new markets
- Reducing loss costs and volatility by improving climate resilience, business resilience and human health

Many (re)insurers reference UN SDGs in their sustainability reports but, to date, the links between insurance and the SDGs tend only to be addressed at surface level. Regulatory expectations have driven intense activity in the areas of measuring and reporting on climate risks and emissions, but there is no industry standard for tracking a (re)insurer's impact on the SDGs (other than in investments, leveraging the more mature approach of the asset management industry to SDG impact reporting).

That may soon change, as the International Cooperative and Mutual Insurance Federation and Swiss Re Institute are developing an Insurance SDG Calculator enabling mutual insurers (and, it is hoped, eventually the wider industry) to take a structured, science-based approach to supporting the UN SDGs. In the near future, this should enable SDGs should sit alongside emissions, nature, climate risk and other science-based metrics in (re) insurers' target-setting and quantitative reporting.

For now, (re)insurers should consider which SDGs a) align with their stated sustainability goals, and b) that they can make a meaningful impact on through their products and capabilities. Where the ability to develop specific solutions is challenged, (re)insurers still have a valuable role to play as educators, advisors and advocates for progress towards each of the 17 SDGs.

The table below illustrates how insurers are well positioned to contribute to at least 14 of the SDGs.

SDG	Examples of how insurers can contribute
1 No poverty 5 Gender equality 10 Reduced inequalities	Access to affordable to prevent people falling into poverty; inclusive coverage design to address inequalities
2 Zero hunger	Support risk management and provide affordable coverage in the food value chain; engage/educate farmers on regenerative methods and resilience, protecting livelihoods and food security
3 Good health & wellbeing	Provision of affordable health insurance and related services
7 Affordable & clean energy	Unlock capital to support the scale-up of clean, affordable energy through risk financing and investment
8 Decent work & economic growth 9 Industry, innovation & infrastructure	Provide solutions to enabling business resilience, job security, innovation and growth. Implemented modern slavery checks and clauses into underwriting policies
11 Sustainable cities & communities	Education and risk financing to support green buildings & urban planning
12 Responsible consumption & production	Embed sustainable materials, circular economy into claims restorations; engage with customers and suppliers on sustainable choices
13 Climate action	Risk modelling and mitigation; resilience and adaptation initiatives; de-risking and investing in the energy transition; engaging clients to drive down emissions towards Net Zero
14 Life below water 15 Life on land	Measure and report on nature-related risks and impacts; engage clients on impacts; develop coverages for natural assets/nature-based solutions
17 Partnerships for goals	Collaborate with competitors to promote sustainable insurance; enter public private partnerships (PPP) for disaster risk financing and resilience

## Scaling the transition

Specialist (re)insurers have a central role to play in accelerating the scale-up of the energy transition and the broader transition to a more sustainable economy. COP28 called for the tripling of renewable energy capacity by 2030 and the energy transition could see \$25-65 trillion invested into renewables and clean energy infrastructure by 2050<sup>1</sup>. That kind of growth is only achievable if those investments are underpinned by insurance.

Beyond energy transition, huge amounts of innovation will also be needed to 'green' cities, buildings, public transport and other aspects of society to support a cleaner, smarter future. This will require the scale-up of new technologies which will again need risk financing.

(Re)insurers can support this scale-up in numerous ways, including:

- Providing risk financing capacity for emerging technologies
- Supporting innovation of new technologies through risk advisory services
- Developing new products and solutions to de-risk innovation and transition risks
- Allocating investment capital to companies enabling the transition
- Advising and engaging with incumbents to reduce emissions and adopt sustainable approaches

This represents an enormous revenue opportunity for (re)insurers. Swiss Re estimates<sup>2</sup> the investment in renewables required to hit Net Zero alone would generate \$237 billion of insurance premiums by 2035. However, there are several hurdles to overcome.

Challenges for underwriters include:

- Lack of historical loss data in young/emerging sectors
- Fast-evolving technologies and risk profiles
- Insurance profitability challenges in certain renewables segments (e.g. offshore wind)
- Emerging and novel risks associated with new technologies
- Lack of immediate scale of emerging clean energy segments
- Risk of project delays, cancellations and company failures

### A shift in mindset is required

To overcome these challenges and fulfil the huge potential on offer, (re)insurers need to adopt a more entrepreneurial mindset, and be willing to take on risk that may only reap rewards over a longer term horizon.

This calls for underwriters to view customer value not just through the lens of premiums and loss histories, but by the lifetime value that business can offer in terms of growth, product breadth, expected risk management performance and gains in underwriting expertise.

Underwriters will also have to think outside the box to overcome concerns over pricing when faced with limited data. This could include bringing leading indicators such as financial health scores, ESG/governance scoring and socio-economic data into the mix to assess the likelihood of successful projects.

**\$237bn** insurance premium opportunity by 2035 in new renewables investment

Brokers also have a key role to play in helping clients in emerging sectors present as much valuable information as possible to underwriters to improve their comfort level. The industry needs to take a more collaborative approach at this critical stage in the scale-up to help the clean energy sector (and underwriters) overcome technical challenges and the lack of benchmarking data. If successful, this could unlock a golden period of growth in which the whole market prospers.

Below are some of the steps needed to accelerate the insurance industry's support of emerging technologies:

- Increased risk appetite and long-term capital
- Upskilling teams with the expertise to underwrite emerging risks (e.g. carbon capture, new technologies)
- Developing new underwriting tools and risk assessment methodologies to form a view of risk quality and pricing adequacy (in the absence of historical loss data, this could mean adapting or building new models incorporating leading indicators)
- Develop diversified energy transition portfolios to minimise systemic risk exposure
- Industry collaboration to overcome technical challenges and improve loss data
- Innovate collaborative risk syndication structures to scale capacity

*"In the absence of extensive claims data, underwriters need to consider risk sharing, customer data sharing and industry collaboration on technical challenges."*

*Insurer*

1. International Renewable Energy Agency

2. Swiss Re

## Don't let Net Zero distract from making a real-world impact today

In the fast-evolving landscape of climate action, Net Zero has emerged as the North Star guiding efforts to deliver a more sustainable future. Many (re)insurers now have Net Zero and/or emission reduction targets in place. To meet these targets, they must drive emissions within underwriting and investment portfolios as close to zero as possible by engaging with high emitting sectors to enable their transition and tilting portfolios towards lower emission companies within these sectors. They must then offset the hardest to abate emissions. This is a complex, long-term project that will take several decades to execute.

The concept of Net Zero, though of paramount importance at national and supranational policy level, encounters obstacles when trickling down to individual company actions. For (re)insurers, the first step is accurately measuring underwriting-associated emissions and setting science-based targets, and there are now tools to help (re)insurers do this.

However, as the focus sharpens on measurement frameworks, we face a stark and somewhat uncomfortable truth – current approaches may not be catalysing the behavioural changes necessary for meaningful real-world outcomes. Certainly not fast enough, at least.

There is a risk that Net Zero could even become a distraction, with entities putting more time and resources into the measurement and reporting of emissions over which they have limited control than instigating tangible actions. Scope 3 (including investment, insurance-associated and the claims supply chain) constitutes well over 80% of the emissions footprint, and even more if they include the Scope 3 emissions of their clients and investees.

As facilitators of the transition, questions (re)insurers could be asking themselves include:

- How do we develop the expertise to be better able to underwrite the energy transition? For example, how do we put in place actions that support greening of households, companies and industries?
- How do we put in place build-back-better policies that use lower carbon materials or help improve climate resilience?

These actions may not immediately impact carbon accounting but potentially hold the key to decarbonising the real economy, especially in the near term.

### Breaking out of the cycle

To start making a real impact as an industry, we need to change some of our long-held beliefs and approaches. Breaking free from a siloed mindset is essential. Climate-related risks are interconnected, calling for systemic thinking and collaborative innovation that cuts across insurance classes, business units and the value chain. Industry bodies have a pivotal role to play in driving policy change, reshaping market culture and breaking down barriers to collaborative action.

### THE SCOPES DILEMMA

The mission to reduce attributed emissions, particularly in the case of Scope 3 emissions, poses a unique challenge. With limited power to take direct action, the question arises – is it appropriate for insurers to be held accountable for emissions that largely fall under the control of investees and insureds?

Encouraging companies to reduce emissions is crucial, and insurers have many levers at their disposal that can encourage and facilitate the transition to a Net Zero world, but the ultimate responsibility to execute on this lies with the emitters. This quandary challenges the credibility and achievability of Net Zero commitments for (re)insurers across all scopes, forcing us to shift our perspective from mere accounting to a more tangible, action-oriented view.

A strict definition of Net Zero proves unhelpful for the insurance industry. Instead, we propose a more nuanced interpretation, supporting an economy-wide ambition and committing to enabling that goal within our sphere of influence. Words matter here – targets, commitments and ambition must reflect our dedication to meaningful, achievable and influential action.

*“Doing the right thing is a strategic imperative - not on some distant time horizon, but today.” Anthony Bice, Oliver Wyman*



We also need to recognise the long-term feedback effects of positive actions taken today. Logic tells us the current trend of deteriorating loss ratios will inevitably improve if we invest in helping businesses and communities build climate resilience. This is also key to preserving the insurability of risks like Florida flood, Californian wildfire and Australian bushfire.

However, incentivising change is difficult if the benefits of actions only play out over the longer term. The (re) insurance market is particularly susceptible to this 'Tragedy of Horizons'; P&C insurance policies renew every 12 months, so even if you invest in activities that reduce physical risk, there's no guarantee you're then going to see the benefits of that risk exposure on individual clients over the longer term.

The Principal-Agent problem adds another layer of complexity for (re)insurers as the overarching goals laid out at corporate level can sometimes misalign with the commercial and competitive realities for underwriters (and brokers) making decisions and executing transactions. In addition, competitors who take no action today could also in theory exploit the investment that market-leading companies make in resilience-building without putting in any of the hard yards.

Yet there are strategic benefits to taking a more proactive approach. Engaging with insureds and investees on decarbonisation and resilience efforts, for example, provides us with a unique understanding of the changing risk landscape, which may eventually be integrated into risk selection and pricing algorithms. With the credibility of historical data and backward-looking models increasingly being challenged, and actuaries grappling with increasing volatility and uncertainty, insights like these will only become more valuable.

### Strategic actions

Despite the complexities, a belief in the long-term benefits can guide us through today's challenges and inspire us to take meaningful action. Below are seven areas in which (re) insurers can start making a real-world impact.

1. Tilting portfolios towards clients committed to decarbonisation is a powerful tool - and necessary step - to support the transition. This should already be underway.
2. Establishing an internal carbon price emerges is a key enabler to this, aligning incentives for the decision-makers - underwriters - and shedding light on the emissions implications of their decisions.
3. Taking a more strategic, joined-up approach to underwriting and investment activities, including

identifying areas of mutual reinforcement and sharing data across business units, can drive efficiency and help accelerate impact.

For example, early-stage venture investing in emerging industries generates deep understanding and valuable data that often sits within the investment group, but could be leveraged for underwriting. This ensures maximum value from the capability, driving efficiency and accelerating impact.

4. It's critical we build up expertise in emerging markets. Even in relatively mature renewables markets like offshore wind, new risks are emerging which are conceptually familiar to underwriters but are driving losses in ways we don't fully understand.

Competition for talent is intense, so (re)insurers are going to up-skill their people and challenge them to apply first principles expertise in different ways. This ensures maximum value from the capability, driving efficiency and accelerating impact.

5. Decarbonising the claims value chain is pivotal as it is insurers' primary point of contact with the real economy. Claims also presents an opportunity to foster ecosystems to accelerate greening buildings and other initiatives.

6. The adaptation and resilience agenda must take centre stage, using insurers' unique skills to drive positive change, reduce risk and preserve and grow insurable markets across mature and developing economies.

7. (Re)insurers should also think about policy advocacy. Addressing climate risk is not just good ethics; it's good for the bottom line. It is fashionable in some circles to dismiss insurers' interest here as corporate wokery, so perhaps (re)insurers can tell a more compelling story about why doing the right thing is a strategic imperative - not on some distant time horizon, but today.

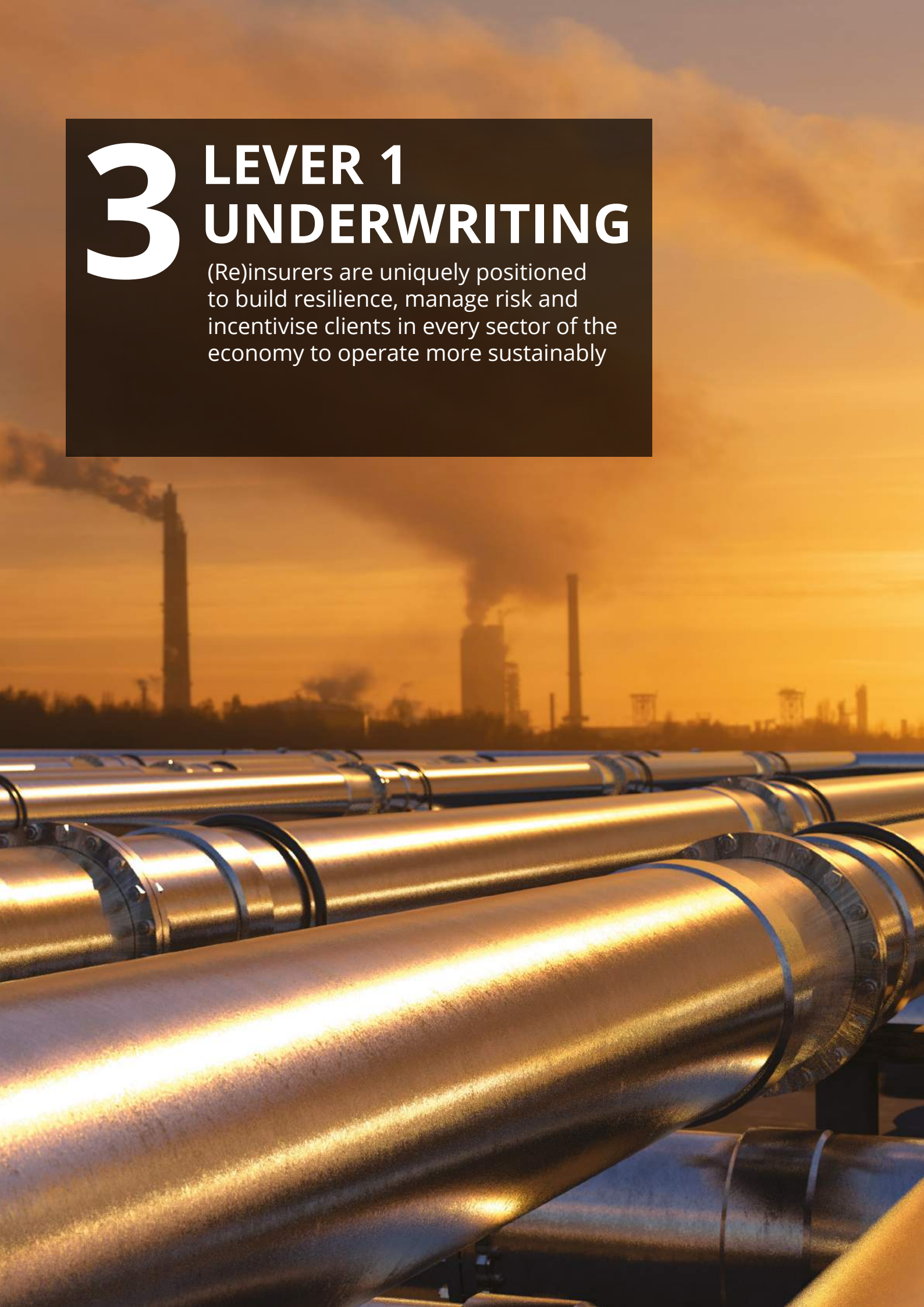


**Anthony Bice,**  
Partner, Insurance & Asset  
Management  
Oliver Wyman

# 3

## LEVER 1 UNDERWRITING

(Re)insurers are uniquely positioned to build resilience, manage risk and incentivise clients in every sector of the economy to operate more sustainably



## Navigating a path to Net Zero

Underwriting-associated emissions can account for as much as half of a typical P&C (re)insurer's total emissions (with investments accounting for the other half and Scope 1 and 2 operational emissions only making a marginal contribution)<sup>1</sup>.

Only armed with accurate carbon accounting information, and the ability to monitor and manage progress, can (re)insurers embark on a meaningful path to Net Zero. Capturing accurate client emissions data and establishing a portfolio emissions baseline from which to start is therefore an essential first step.

Calculating portfolio emissions is a complex challenge as many companies, particularly SMEs and private firms, don't yet report this information (and Scope 3 disclosures are inconsistent even among larger companies). Where emissions data is unavailable, sector proxies/averages can help you make an informed estimate.

Once a baseline is established and science-based decarbonisation targets have been set, the (re)insurer must then engage with clients to support and steward their decarbonisation efforts.

(Re)insurers have a key role to play as educators, advisors and enablers of the transition - for example, keeping the client informed of government policies which could impact profitability, or benchmarking their approach against peers.

While relationships must be carefully managed through this transition, particularly where long-standing clients in high emitting sectors are concerned, this process has the potential to deepen and add significant value to relationships.

*"It's really important to establish a firm and credible emissions baseline. Where clients have emission data to hand we should collect that, whether through direct conversations or third-party ESG ratings."*

*Insurer*

### EMISSION CALCULATION TOOLS

#### 'The PCAF standard'

The Global GHG Accounting and Reporting Standard for Insurance-Associated Emissions<sup>2</sup> was jointly developed by the NZIA and Partnership for Carbon Accounting Financials (PCAF) to help insurers measure emissions attributable to underwriting portfolios. The Standard defines attribution factors for commercial lines portfolios and personal motor portfolios, and will over time be expanded into more lines of business. It also provides guidance on emissions data, data quality, and reporting requirements.

#### SBTi brief for Net Zero insurance portfolios

Released in December 2023 by the Science Based Targets Initiative to help (re)insurers, this paper<sup>3</sup> summarises the emission reporting landscape for (re)insurers and outlines three approaches - sectoral decarbonisation, portfolio coverage and temperature rating - for calculating underwriting-associated emissions.

#### The NZIA Target Setting Protocol

Developed by the Net-Zero Insurance Alliance (NZIA), this open-source tool<sup>4</sup> is designed to help insurers set achievable targets in temperature alignment with the Paris Agreement. It lays out best practice guidance for setting near and longer-term emission reduction targets, engaging with clients, (re)insuring the transition and reporting on progress.

#### CISL ILG Temperature Score Methodology

This tool<sup>5</sup>, developed by the Cambridge Institute for Sustainable Leadership (CISL), can be used by investment or underwriting teams to track the distance between a company or portfolio's current climate performance and science-based climate benchmarks, such as the Paris Agreement.

1. McKinsey, 2023

2. The Global GHG Accounting and Reporting Standard for Insurance-Associated Emissions

3. Industry Brief for the SBTi Financial Institutions Net-Zero Insurance Standard (Underwriting Portfolios)

4. The NZIA Target Setting Protocol

5. CISL ILG Temperature Score Methodology

## 13 actions to reduce emissions

- **Implement ESG data capture in the underwriting process**, enabling you to collect insureds' scope 1 and 2, and where possible, scope 3 GHG emissions data. As well as absolute emissions, **calculate insureds' carbon intensity** as this helps compare companies' relative performance regardless of their size;
- **Establish a baseline** for the total GHG emissions in your underwriting portfolio using the Global GHG Accounting and Reporting Standard for Insurance-Associated Emissions as a guide;
- Explore what **sector proxies** may be available to fill data gaps;
- **Identify emissions hotspots** within your portfolio which need the most urgent attention (by company, sector, class or geography, for example);
- **Set science-based portfolio emissions targets** using the NZIA Target Setting Protocol & SBTi sector guidance for insurers as guides;
- **Engage with policyholders** on their Net Zero transition and decarbonisation strategies, helping them develop and implement credible Net Zero transition plans and manage possible transition risks;
- **Consider introducing exclusions and incentives** within your underwriting guidelines;
- Over time, **rebalance your portfolio** away from high emitters lacking transition plans and towards lower carbon clients and those with credible transition plans;
- **Enable innovation by providing capacity** and solutions for activities that support the Net Zero transition;
- Explore how to incorporate **nature-based solutions** which remove carbon from the atmosphere within your insurance solutions;
- **Reduce Scope 1 & 2 emissions** in your operations and **Scope 3** emissions in your supply chain and claims management processes;
- **Create an internal carbon fund** to fund carbon reduction initiatives and purchase **carbon offsets** to balance out the hardest-to-abate emissions (see page 47 for more on reducing operational emissions).

“Regardless of whether you have a Net Zero target, you need to understand the embedded emissions of your underwriting clients, and how they compare, to understand the transition risk and strategic risk in your portfolio.”

*Rob Bailey, Oliver Wyman*

### Client transition plans

Establishing whether an insured has a clear and viable climate transition plan is a key starting point for engagement.

A climate transition plan is a time-bound action plan which clearly outlines how an organisation intends to pivot its existing assets, operations, processes and business model towards a trajectory aligning with the latest and most ambitious climate science recommendations. Often, this means aligning to the goals of the Paris Agreement to half emissions by 2030 and reach Net Zero by 2050.

## INCENTIVISING ACTION

### Exclusions

The bluntest tool to incentivise decarbonisation is simply to exclude certain businesses/sectors from accessing insurance. Activist groups such as Insure Our Future are calling for (re)insurers to stop insuring fossil fuel projects. Many insurers argue they can have more influence by engaging with these clients rather than handing these accounts to less ethical competitors.

### Capacity/limits

Some more progressive insurers have begun reducing limits available to high emitting insureds and those without transition plans.

### Pricing

A number of insurers are exploring the idea of bringing emissions (and wider ESG factors) into pricing models, though this is some years from implementation. A more achievable price incentive in the near term could be to offer premium discounts for companies that build climate adaptation and risk mitigation measures into their operations.

### Claims emissions

The claims process presents several opportunities to make an immediate impact on emissions, including repairing over replacing assets, using green materials and engaging suppliers to drive down emissions (see page 36).

### Add-on services

(Re)insurers may be able to add value to their policies by providing insureds access to expert advice on energy efficiency and other emission reduction measures.

The UK Government's Transition Plan Task Force released draft guidance<sup>6</sup> on transition plans in 2022 which focused on three core principles:

- **Ambition** - companies should outline ambitious plans to contribute to and prepare for a rapid and orderly economy-wide Net Zero transition, focusing on direct abatement across scopes 1, 2 and 3, so carbon offsets are ignored;
- **Action** - companies should focus on concrete actions which emphasise the short term and strive for resilience;
- **Accountability** - they should deliver the plan through clear governance mechanisms and consistent, comparable and decision-useful reporting and verification;
- From a (re)insurer's perspective, engagement on transition plans should aim to:
  - Establish what good looks like in the client's sector;
  - Set a clear transition pathway with quantifiable KPIs;
  - Create accountability and ensure robust oversight;
  - Track and report against quantifiable KPIs;
  - Aim to embed transition as 'business as usual';
  - Educate stakeholders on the task ahead;
  - Identify gaps in knowledge, expertise and resources;
  - Prepare the client for potential longer-term policy implications.

Assessment of client transition plans in the underwriting process is still in its relative infancy and tends to focus on high emission industries. However, the energy transition will impact business models in every sector, so underwriters should consider transition risks across their entire portfolios, not just high emitting sectors.

A transition plan is also a good indicator of how prepared the client is for the future and arguably, by extension, the quality of their governance and risk management.

*"Clear engagement and education on the task ahead, setting out to stakeholders how you intend to go about your business and the potentially difficult conversations you may need to have, is really important."*

*Insurer*

## EXAMPLE TRANSITION PLAN QUESTIONS

Lloyd's Joint Rig Committee Transition Questionnaire (JRC2021-33)

1. Has your company scientifically measured your greenhouse gas emissions for your Scope 1, 2 and 3 activities? Please include some brief details.
2. Do you have an evidence-based plan to reduce Scope 1 greenhouse gas emissions? Please attach.
3. What operational performance benchmarks do you currently use to track greenhouse gas emissions and progress to reduce them?
4. Which metric do you intend to use to assess your transition progress?
5. Have you engaged with an independent third party to assist and verify your transition process?
6. Is your plan aligned with the Paris Agreement? If not, please give further details.
7. What transition milestones have you identified in your plan?
8. Has your timeline changed since you first started this process?
9. Do you have an allocated budget for transition? What is this as a percentage of your CAPEX?
10. Do you have a nominated board member responsible for transition progress and is it an ongoing agenda item for board meetings?
11. Is your company strategy aligned with your transition goals?
12. Can you provide some narrative around your progress to date? Please include any other relevant information, including your ESG framework as applicable.

## Assessing nature risks & impacts

(Re)insurers increasingly recognise the degradation of nature, ecosystems and biodiversity pose a growing threat to underwriting profitability. However, identifying, quantifying and mapping these exposures is a complex process as nature risks, impacts and dependencies vary significantly by sector, class of business and location.

Unlike calculating GHG emissions (which relies on a handful of relatively standardised metrics) there are multiple variables to consider with nature, from deforestation to soil quality, water use, pollution and biodiversity loss, and many of these factors are interconnected to each other as well as broader social, economic and climate-related challenges.

Conducting a nature-focused materiality assessment will enable you to create a heatmap of the key nature risks, impacts, dependencies and opportunities in your underwriting portfolio. Below are eight actions to get you started:

**1. Define nature.** Firstly, you need to determine what is meant by 'nature-related risks, impacts and dependencies'. Consult resources from bodies like the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) and the Task Force on Nature-Related Financial Disclosures (TNFD) for key definitions. Familiarise yourself with upcoming nature-related reporting requirements in the jurisdictions in which you operate.

**2. Structure your assessment.** Use publicly available frameworks to define the scope and goals of your assessment and then implement it. The TNFD 'LEAP' framework provides specific guidance to help financial institutions locate their interface with nature, evaluate dependencies and impacts, assess risks and opportunities, and prepare to respond. Organisations can also develop nature-related science-based targets using the Science Based Targets for Nature (SBTN) framework.

**3. Identify geospatial risk hotspots.** Harness third-party tools and datasets such as ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure) or WWF's Integrated Biodiversity Assessment Tool (IBAT), to create geospatial maps highlighting hotspots for issues such as water scarcity, biodiversity loss, deforestation and land use change. Even if you are not heavily exposed to these risks in the underwriting portfolio, understanding them is useful context that will help inform future decisions.

**4. Explore sector- and class-specific trends.** Engage with internal teams to assess how well they understand how clients in specific sectors depend on nature, what their impacts might be and what business risks they may face in the transition to a nature-positive economy and how their business models may need to change.

**5. Engage with clients.** Talk to clients directly to better understand their risks, dependencies and impacts (bearing in mind you may need to explain why you are asking for information that does not appear directly related to underwriting risk). Find out what you can about their supply chains. Finally, consider how you can incentivise them to conduct assessments of their own, bring nature into decision-making and even represent nature on the board.

**6. Heatmap your exposures.** Overlay internal exposure data to identify your key touchpoints with nature, including where your most material financial exposures exist (i.e. which nature-related risks and high-risk/impact classes of business, sectors and geographies are you most exposed to through your underwriting activities?). Identify hotspots that need the most immediate, urgent attention (by client, sector, class of business, geography, etc.).

**7. Leverage internal expertise.** Drill down into sector/class-specific issues and solutions. For example, property underwriters could start thinking about how natural systems and green infrastructure can build resilience against flood and other perils, or construction underwriters could engage with developers on how deforestation or soil pollution risks are being addressed.

**8. Identify opportunities.** Consider which products can help address the nature risks and impacts you have identified, and where opportunities may exist to harness nature-based solutions or develop insurance solutions to help clients manage transition risks, reduce their impacts and innovate new/emerging business models.

*"We consider the specific products we insure - not just sectors - and how nature and biodiversity are material to their production and consumption."*

*Insurer*

## Exploring nature-based solutions

Nature will soon play a bigger role in underwriting - in risk selection and pricing, providing incentives to replenish nature, and the development of specific nature-based insurance solutions.

Nature-based solutions can take a number of forms, including:

- Coverage for damage to natural assets (often parametric to date)
- Coverage financing response interventions which support ecosystems
- Solutions that harness natural systems to build resilience
- Products incorporating nature-positivity into design (e.g. rewilding or carbon offsets)
- Risk financing to secure nature-focused impact investment
- Risk financing to support the scale-up of nature-based climate solutions

Policyholders include:

- Governments/public authorities overseeing protected areas
- Companies operating in protected areas
- Companies dependent highly dependent on natural capital/services
- Public-private partnerships/NGOs
- Nature-based carbon offsetting projects

There is diverse, if piecemeal, activity in this space. Firms including Swiss Re and WTW have, for example, developed parametric solutions that help protect and restore coral reefs in various locations. In 2023, a group of 11 insurers came together to reinsure a debt conversion scheme to generate more than \$400 million of marine conservation funds for the Galapagos Islands. Meanwhile, specialist carbon markets insurers work closely with carbon offsetting project managers.

There is a compelling business case for investment in nature-based solutions which combine impact with risk reduction. Protecting coastal wetlands, for example, also reduces flood risks, while incentivising sustainable forestry and agricultural practices can help improve soil health and yields while reducing wildfire and flood risks.

A number of leading (re)insurers are investigating the links between nature-based solutions and loss performance. AXA's Coastal Risk Index, for example, maps current and future flood hazards resulting from climate change, including scenarios with and without coastal ecosystems such as coral reefs and mangroves.

Leading (re)insurers are also more broadly exploring how to incorporate nature-related guidelines in the underwriting process alongside ESG factors such as emissions. Over the longer term, underwriters may be able to put a price on the risk reduction and resilience benefits of nature-based solutions, and reflect this in premium discounts or other incentives.

For now, nature positive insurance (NPI) is in its infancy and collaboration, education and improved data is needed across the value chain to help scale and accelerate innovation.

### INNOVATION OPPORTUNITIES LINKED TO 2030 NATURE GOALS

- Wide-scale land protection & restoration agreed by 195 countries
- Mitigating pollution risks
- Sustainable agriculture transition
- Incentivising resilience/risk reduction
- Developing green urban areas

### CONSIDERATIONS WHEN DEVELOPING NATURE-BASED SOLUTIONS

- What natural assets are vulnerable?
- What impacts and financial exposures are associated with degrading those assets?
- What actions are needed to restore nature/build resilience?
- How can insurance financing build resilience/support restoration?
- How can insurance financing support innovation/nature-positivity?
- What historical hazard and loss data is available?
- How may climate change impact the risk profile?
- Does the solution align with broader climate resilience objectives?
- Is the solution harmonious with the native environment?
- Are restoration/conservation methods and providers credible and verified?

"Parametrics are one tool well suited to natural hazards, but nature-based solutions will soon take many forms, including indemnity products and ideas we haven't had yet."

*Insurer*

## Operationalising ESG data

(Re)insurers are capturing more ESG data on insureds than ever before, but what should they do with it? Operationalising ESG data within the underwriting process begins with developing a robust data strategy which sets a clear ambition for ESG data that aligns with the broader sustainability strategy. Goals could include, for example:

- Meeting science-based targets (e.g. Net Zero)
- Meeting reporting requirements
- Managing financial or reputational risks
- Linking ESG to loss ratios and improving profitability
- Reducing negative impacts/making a positive impact
- Developing sustainable insurance solutions

You then have to develop a strategy for capturing and operationalising ESG data. In other words, what ESG data do you need to meet your goals and what do you intend to do with that data once you possess it?

Conducting a materiality study will help determine which ESG factors are most relevant to your business (see page 34). You then need to identify the types of ESG data (and specific metrics) will allow you to execute on your objectives, and work backwards to define what underlying ESG data needs to be captured.

ESG data can help inform, for example:

- Managing underwriting risks
- Pre-bind assessment
- Portfolio monitoring
- Emissions/climate/nature reporting
- Managing credit/investments risks
- Sustainable procurement

Some of the ESG data you need may already exist within your organisation, so a valuable first step is to engage internal stakeholders to identify what data you already possess and where gaps exist. You then need to establish where the missing data lives. It could be publicly available; purchasable from data providers or rating agencies; or accessible only through direct engagement with insureds.

When engaging rating agencies, be aware that rating methodologies vary significantly between providers, meaning an insured that scores poorly with one rating agency could have a better score with another depending on how they weight specific ESG factors.

In addition to concerns over the lack of correlation and black box nature of some providers' methodologies, ratings are vulnerable to being based on outdated information and may rely heavily on sector proxies. Most rating agencies also don't yet consider transition plans, so while ESG ratings serve a valuable purpose should ideally be supplemented with additional research.

ESG ratings can serve as a valuable triaging tool. For example, if a rating looks strong, you may provide coverage with little additional scrutiny, while a bad ESG rating might trigger a deeper investigation, referral or direct client engagement.

### ESG DATA SOURCES

#### Publicly available

- Company filings
- ESG/sustainability reports
- Climate-related disclosures
- Social/traditional media
- NGOs
- Research organisations
- Public authorities

#### Third-party providers

- Rating agencies (eg. Moody's)
- Generalist data providers (eg. MSCI)
- Risk/insurance data specialists (eg. Verisk Maplecroft)
- ESG data specialists (eg. Sustainalytics)

#### Direct engagement

- Client/brokers questionnaires
- MGAs
- Internal stakeholders/functions

### ENGAGING WITH CLIENTS

- Address only relevant topics & metrics
- Ask minimum number of questions
- Ask questions with the most impact
- Align internally on common questions where possible
- Explain to client how data will be used
- Seek validation to support answers (e.g. accreditations)
- Probe transition plans
- Evolve data requests with client capabilities

"We try to be consistent with our questions and review process so that if we decline to insure a company on ESG grounds in one line of business, we don't treat them differently in another line."

*Insurer*



When engaging clients, be aware that brokers and insureds seek greater consistency in question sets presented by competing (re) insurers (and even by different teams within the same organisation), as well as more transparency from (re)insurers over how ESG data is being used in the underwriting process.

### Operationalising ESG data

Once you know your objectives and have captured the relevant data, you then need to embed this data strategy within the underwriting process.

A first step could be to develop an internal rating system which aggregates the ESG data gathered on the given client, weighted against the ESG factors you deem most important or relevant to the class of business.

This then generates a proprietary ESG risk rating or score for that particular client based on your own priorities and objectives. There is a growing number of third-party data and analytics solutions designed to help insurers in this process, as well as mapping ESG at portfolio level.

Some progressive insurers have built ESG considerations into the underwriting process in the form of daily underwriting calls, approvals and referrals. This can be labour-intensive over a large book of business.

Over time, improved data quality and standardisation should enable more ESG data capture and assessment to be digitalised and automated, and many (re)insurers already feed ESG ratings into underwriting dashboards.

Centralising processes and leveraging economies of scale within the organisation where possible (such as shared question sets and datasets) is another way to drive both efficiency and consistency of approach across teams - though some variations in approach are inevitable as certain ESG factors will be more material for different lines of business (e.g. directors and officers' liability underwriters may be most concerned with governance, while property underwriters may look at physical climate risks).

With the exception of certain ESG-specific products and business models, ESG data is not yet having a direct influence on risk pricing of risk. For now, (re)insurers are more focused on getting a good grip on the ESG risks and impacts within their portfolios - though we are aware of several investigating correlations between ESG factors and loss ratios, with a view to bringing that information into pricing models.

ESG is, however, already influencing capacity decisions. In addition to broad exclusions (e.g. avoiding new thermal coal projects or companies linked to modern slavery), some (re)insurers have begun to reduce the limits they offer companies with high emissions or particularly bad ESG ratings.

### Creating a culture

Training underwriters on all aspects of ESG, including how to assess ESG risks, why these risks are material to insurance and the key role insurance plays in the transition, is essential both to enable them to execute the ESG data strategy efficiently and also to win their buy-in for the additional work that is required.

Clear guidance is also needed to help navigate potential conflicts of interest between profit and purpose/impact in the decision-making process. Numerous leading (re)insurers have also established or are considering ESG-related KPI schemes setting clear goals and incentives.

## IMPLEMENTING ESG DATA

### First steps

- Aggregate client ESG ratings/data
- Weight ESG factors against strategic goals
- Develop internal rating methodology
- Explore third-party tools to assist
- Map ESG hotspots at portfolio level
- Identify where questions sets can be standardised

### Embedding in underwriting

- Explore correlations between ESG and risk
- Implement ESG guidelines and referrals
- Include ESG approval in underwriting calls
- Be consistent across classes of business
- Feed ESG ratings into underwriting dashboards
- Explore ESG-linked pricing
- Consider ESG-linked KPIs

“Clients are willing to provide information when they understand what it will be used for. Insurers need to be transparent when requesting ESG data.”

*Broker*

# Materiality assessment

How do you identify which sustainability factors are most relevant for your organisation to inform your reporting efforts or develop a sustainability strategy and goals? The starting point is a materiality assessment.

A materiality assessment is a formal exercise which can involve a mixture of quantitative analysis and qualitative research, such as engagement with internal and external stakeholders, to determine how important specific sustainability issues are to them and the business.

Organisation-wide assessments can feel overwhelming, so you may want to create a shortlist of key sustainability topics to assess, and/or start with a high priority segment of the business and expand the assessment out from there.

## 'Double materiality'

The first objective is to establish the financial materiality of a range of risks and opportunities, enabling you to focus your strategy, goals, resources and communications on the areas that matter most. When the organisation's own impacts on the environment and people are also considered, this is called a double materiality assessment.

Double materiality is mandatory under the EU's Corporate Sustainability Reporting Directive<sup>1</sup> (CSRD), so any (re) insurer conducting business in the EU will be required to take this approach. For insurers, conducting a double materiality approach is complex but highly valuable as the impacts created by underlying insureds and investees can be considerable - creating great opportunity to engage with these companies on potential areas of improvement.

*"A comprehensive materiality assessment enables you to build out a sustainability strategy and goals well-informed by stakeholder priorities."*

*Insurer*

## GETTING STARTED

### 1. Engage internal stakeholders

- Canvas senior leaders and small groups from across the organisation.
- Which sustainability risks and impacts do they consider material and why?
- Harness team specialisms to drill down on certain topics.
- Identify what actions could help improve risks and impacts.

### 2. Engage external stakeholders

- Reach out to clients, brokers, industry associations, NGOs other relevant groups.
- Review media and competitor disclosures to identify emerging/missed trends.

### 3. Leverage data

- Identify where existing internal data can enhance your assessment and where data from external providers may add value.
- Capture quantitative data from stakeholders to help score/weight sustainability factors.

### 4. Identify & define potentially material factors

- Consider risks and impacts by activity, geography and across your value chain, and where they may be interconnected.
- Consult Appendix D of the European Sustainability Reporting Standards<sup>2</sup> (ESRS) for a list of core topics to consider. Also consider entity- and financial service-specific factors.
- Define your factors. Are they actual or potential? Positive or negative? Short-term or long-term?

### 5. Assess your impacts, risks & opportunities

- How much damage does an activity cause? Who is impacted? What would it cost to repair the damage?
- How financially exposed are you to specific sustainability factors? Consider business risks plus other financial implications like reputational damage, taxes and penalties.
- Establish how you intend to manage these risks and impacts. What relationships/resource use need to change?

### 6. Rank sustainability factors by materiality

- Rank your negative and positive risks, impacts and opportunities.
- Determine which factors are material and which require action and resources.

### 7. Develop a strategy

- Set out measures for managing your material risks, impacts and opportunities, including metrics and targets for each sustainability measure.
- Define your policies and processes to achieve them.
- Embed sustainability into your future business model and corporate strategy.

1. Corporate Sustainability Reporting Directive

2. ESRS 1 General Principles

## Sustainable claims management

Claims fulfillment represents one of the biggest opportunities for insurers to make a real world impact today. Often overlooked in insurance sustainability conversations, claims are a major source of emissions and should be treated as a high priority action area.

The claims process is a key touchpoint with customers and the real economy, presenting immediate opportunities for:

- Reducing emissions
- Engaging with customers
- Engaging with supply chain providers
- Supporting the use of green materials and processes
- Supporting the circular economy
- Building climate resilience
- Maintaining the insurability of assets

Claims restorations often involve carbon-intensive materials (e.g. steel, cement, glass), so reducing the carbon footprint of claims activities is an important step in decarbonising insurance business models. Actions to support this could include encouraging customers to accept repairing damaged assets over replacing them and incorporating recycled or sustainably produced materials where possible.

A claim also presents a unique opportunity to engage with the customer on sustainability choices in a way that is tangible and easy to understand. However, insurers face several challenges in embedding sustainability into the claims process, including:

**Commercial realities.** Balancing sustainable choices and emissions reduction with customer satisfaction, claims costs and combined ratios is not easy, particularly given the “green premium” on using sustainable materials and parts, which are often more expensive. One general insurer in the UK reported low carbon glass for vehicles still costs 25-30% more than traditional glass, for example. This kind of differential is very difficult to absorb into the loss ratio or to pass on to customers. Customers may also be reluctant to repair over replace due to the perception they could receive an inferior or ‘cheap’ resolution.

**Supply chain complexity.** Claims supply chains involve multiple individual companies, supply chains and networks. Larger suppliers and contractors may be significantly more advanced on sustainability than smaller outfits. Different claims and perils also involve different restoration processes, materials and emission drivers.

“The work we’ve done suggests claims emissions are at least an order of magnitude higher than a typical insurer’s direct operational emissions. Depending on where you draw the boundaries for the claim supply chain, they could represent considerably more.”

*Rob Bailey, Oliver Wyman*

### STANDARDISING CLAIMS EMISSIONS REPORTING

It is widely understood that claims fall under an insurer’s Scope 3 emissions reporting obligations, which incorporates indirect emissions occurring within the value chain of the reporting entity. However, there is currently no industry consensus on how claims-related emissions are categorised. We are aware of at least three categories being used to report on claims emissions:

- Category 1 - Purchased goods and services (as materials and services are provided by suppliers and contractors)
- Category 11 - Use of sold products (as claim restoration forms part of the sold insurance product)
- Category 15 - Investments (as capital is being provided to the customer under the insurance contract)

In some cases, insurers may split their claims-related emissions into multiple categories. For example, cash payments will probably be treated differently to physical restorations. As more work is undertaken to understand the emissions characteristics of different claims processes, developing a standardised approach for disclosing these emissions would be beneficial for the industry.

**Data quality issues.** Insurers have not historically attempted to capture emissions data from within these complex supply chains. Data is patchy and inconsistent, and smaller firms may be unable to provide reliable data. Insurers therefore need to develop proxies to fill the gaps and inform estimates in their assessments.

**Lack of standardisation.** As regulatory reporting obligations intensify, insurers will be expected to provide more detailed disclosures on their claims-related emissions. Industry organisations have begun to offer broad guidance (see page 48 for advice on Scope 3 calculations from the Sustainable Markets Initiative (SMI), for example). However, there is currently no standard industry methodology for how insurers report their Scope 3 emissions (see box on previous page).

**Factoring in natural abatement and growth.** If nations are to meet their decarbonisation obligations under the Paris Agreement, emissions intensity should fall in all sectors of the economy in the decades ahead. This could be factored into long-term targets and projections. However, insurers cannot sit back and wait for this natural abatement to get them to Net Zero - particularly if their insurance portfolios (and total emissions) are also expected to continue to grow. Nor can they simply resort to cash settlements to pass the responsibility for sustainable choices onto customers.

Despite these challenges, insurers must seize on the opportunity claims presents to make a real world impact today, to reduce their Scope 3 emissions and to exert their influence to accelerate decarbonisation and the transition to a more sustainable economy.

*“We must accept many customers may not be ready for some green solutions yet. We need to change the narrative.”*

*Insurer*

*“You need to take a well-rounded commercial view when implementing emission reduction initiatives in the claims process.”*

*Rob Bailey, Oliver Wyman*

## ACTIONS POINTS FOR INSURERS

1. Map your claims supply chain as comprehensively as possible.
2. Develop a methodology for measuring emissions in the supply chain, including proxies/averages for certain claim types and/or perils. Capture granular detail from historical claim invoices to support the development of these archetypes (e.g. what materials and processes are typically involved in specific claims).
3. Use a robust Scope 3 emissions calculator/model to understand emissions embedded in specific materials and processes (today and under future scenarios).
4. Identify emissions hotspots within the supply chain and target emission reduction efforts in these areas.
5. Engage with suppliers/contractors to understand the emissions and sustainability impacts within their supply chains, and improve data capture over time.
6. Implement sustainability criteria in the supplier selection process.
7. Set science-based targets for emissions-reduction in the supply chain.
8. Build ‘repair over replace’ and circularity into claim restorations where possible.
9. Use the claims process to nudge insureds towards more sustainable choices (e.g. EV courtesy cars, repair over replace, home insulation, green retrofitting, low carbon heating, etc.).
10. Collaborate with competitors to drive down the ‘green premium’, accelerate the use of green materials and influence manufacturers and others in the supply chain to take a more sustainable approach.
11. Consider tracking green fulfillment choices by customers when claims are resolved with cash settlements.

(Source: Insurer focus group co-hosted with Oliver Wyman)

## Innovating products & solutions

Entrepreneurial insurers have much to gain by innovating products and solutions to build resilience and support the sustainability transition. However, product innovation itself comes with risks and challenges, particularly when historical loss data is limited.

Multiple variables contribute to the development of a successful product or solution, including:

- Capital
- Risk appetite
- Underwriting expertise
- Underwriting advantage
- Reliable loss data
- Meeting a need
- Client demand
- Distribution

One of the biggest challenges (re)insurers face is the need to develop solutions quickly in a risk landscape that is both untested and rapidly evolving. Emerging risks, technologies and business models do not offer actuaries and underwriters historical loss data on which to base their pricing and decisions, yet investment and solutions are needed today.

Insureds will face new risks as the energy transition unfolds, as well as evolving physical and economic risks in a changing climate. As the impacts of climate change intensify, traditional backward-looking risk models become increasingly redundant in managing these risks.

To seize on opportunity in this uncertain environment, it is essential to create a culture and environment for innovation to flourish within the organisation. This could include:

- An underwriter/team with risk appetite, an entrepreneurial mindset and willingness to fail;
- Senior management buy-in, empowering teams to fail fast and move on, within agreed guidelines;
- Dedicated innovation capital ;
- Harnessing data and technology to enable decision-making;
- Access to proprietary data and/or a client(s) in need of specific solutions;
- High quality climate risk modelling information;
- A willingness to consider alternative (re)insurance structures and collaborations;
- Attracting talent with diverse backgrounds and skills.

Some progressive (re)insurers have reportedly allocated capital to ring-fenced incubation hubs in which emerging risks can be taken on and loss ratios analysed without the pressure of making fast returns.

*“We need to rediscover our pioneer spirit. Tackling today’s biggest challenges is exactly what insurance is here for and there are huge rewards on offer.”*

*Antony Ireland, Better Insurance Network*

1. Aon

### SEIZING ON MEGATRENDS

According to Aon, megatrends including climate change, new and emerging technology and social, political and economic shifts offer opportunities to grow and create entirely new (re) insurance products and markets worth billions in premiums<sup>1</sup>.

Five of the 10 it identified as offering the biggest opportunities for (re)insurers relate to sustainability (estimated insurance premium opportunity by 2030):

Horizon 1 (generate premium today)

- **Build Back Better - resilient infrastructure development** (\$1-5bn)
- **Electrification** (\$1-5bn)
- **Decommissioning of carbon-intensive assets** (\$5-10bn)

Horizon 2 (generate premium today but require innovation/investment)

- **Carbon capture utilisation and storage** (\$1-5bn)

Horizon 3 (longer-term, policy-dependent)

- **Emergence of nature-based solutions and impact on biodiversity** (\$1-5bn)

As some megatrends pose an existential threat, Aon urged (re)insurers to proactively position themselves for transformative success rather than passively waiting for greater clarity and data, which could lead to paralysis.

The firm outlined a simple framework to capitalise on future growth:

#### Step 1

Develop an understanding of the future landscape

#### Step 2

Consider how the (re)insurance industry will be impacted

#### Step 3

Identify and prioritise trends that will create (re)insurance opportunities

#### Step 4

Carry out in-depth analysis to quantify the opportunity

#### Step 5

Develop a roadmap for action

More broadly, (re)insurers need to look beyond the traditional one-, three- or five-year insurance cycles to respond to longer-term threats and opportunities. We would argue that considering long-term trends is simply good commercial strategy as it enables you to adapt ahead of time to evolving regulation and position yourself to lean into or manage emerging risks in an orderly way.

Collaboration has a key role to play. ESG data quality and inconsistency is a significant hurdle for the industry, for example, so brokers and (re)insurers need to find ways to standardise the way data is captured and flows through the value chain (while also maintaining healthy competition). The transition also offers a unique opportunity for brokers and (re)insurers to think outside the box to develop new risk financing structures fit for a new-look economy.

### Overcoming barriers

(Re)insurers face structural, economic and human barriers to innovation. ClimateWise recommend seven actions<sup>2</sup> for (re)insurers to address barriers to innovation and accelerate climate-related product innovation:

- Actively engage with government on transition protection needs and private-public partnership opportunities to facilitate blended-finance approaches to scaling risk-transfer capital, such as through state-backed reinsurance pools;
- Upskill to enhance an 'engineering' approach to underwriting, building on close relationships with technology developers of all sizes;
- Coordinate across the insurance value-chain including brokers, insurers and others to reduce duplication through a common industry framework that recognises the unique role each player should address to achieve Net Zero;
- Drive 'long-termism' through a culture that incentivises innovation and works to reduce barriers that tend to embed static business-models;
- Enhance structuring of existing climate data and development of key climate models, bringing together model-vendors, in-house analytics teams, and original equipment manufacturers (OEMs) to access key data sources and advise on best practice;
- Innovate product structures and new insurance offerings that are aligned to client needs, ensuring clients and customers are aware of how newer products and structures, such as usage-based products or parametrics, can benefit them;
- Align insurance solutions with insurers commercial and climate objectives so growth areas, such as Intellectual Property insurance or risk consulting, appropriately integrate climate considerations in ways that enable additional innovation."

*"To innovate, we need to collaborate much better across our industry, all the way through the value chain."*

*Reinsurance broker*

### IN FOCUS: CARBON MARKETS

The carbon markets - which drive down emissions by putting a price on carbon - could be worth \$1 trillion by 2050, which could equate to billion-dollar-plus gross premium opportunity<sup>3</sup> for (re)insurers.

Several specialist insurers have launched to serve the voluntary carbon markets (in which participants purchase and trade carbon credits/offsets via certified projects such as afforestation or carbon capture projects). In addition to traditional property & casualty coverages for carbon removal projects, product innovations include:

#### For buyers of credits:

- Coverage against delivery risk (projects not delivering) or reversal (carbon being captured then released)

#### For carbon removal projects:

- Parametric cover against physical risks
- Political risk coverage
- Excess of loss cover for carbon market buffers (a type of self-insurance pool)

Developing products for these markets requires a mix of specialist capabilities in addition to traditional underwriting expertise, including a technical understanding of climate change, carbon removal methods and nature-based solutions, as well as political risk.

Carbon risk is still a nascent area and is likely to remain a specialist class of business in the near-term. However, several initiatives are being implemented in 2024 to bring greater accountability and integrity to the market, including clear standards around measurement, reporting and verification of carbon credits, which should over time increase (re)insurers' comfort level in taking on these risks.

2. ClimateWise (Cambridge Institute for Sustainability Leadership)

3. Kita/Oxbow Partners

An aerial photograph of a vibrant turquoise river winding through a lush, dense green forest. The river flows from the top right towards the bottom left, with a small sandy bank visible in the lower center. The text is overlaid on a dark rectangular area in the upper left quadrant.

# 3 LEVER 2 INVESTMENTS

(Re)insurers possess billions of dollars of investment capital which can help accelerate the transition to a more sustainable world and influence investee behaviour

## Developing a sustainable investment strategy

The insurance industry controls more than \$26 trillion of assets<sup>1</sup> in all corners of the economy, meaning decisions over how that capital is deployed will be hugely influential in the climate and energy transitions. Three strategic goals (re)insurers should prioritise in their investments are: ESG integration, decarbonising investment portfolios and unlocking capital to support innovation, accelerate the energy transition and build climate resilience and solutions.

### Integrating ESG into investments

Many (re)insurers already formally integrate environmental, social and governance factors into their investment decision-making processes. This includes **incorporating ESG criteria into asset and manager selection, engaging with investee companies** on sustainability issues through active dialogue, proxy voting and shareholder resolutions and **supporting sustainable investment strategies** that generate positive impact, as well as financial returns.

Within the asset selection process, insurers can **employ exclusionary screening** to exclude certain industries or companies that are involved in activities considered harmful to the environment or society such as tobacco, weapons, fossil fuels or companies with poor employment practices. This process helps group investees into categories (i.e. worst performers, needs improvement, sector leader, etc.) which in turn informs follow-up actions such as engagement, reallocating invested capital to other companies or divestment as a last resort.

(Re)insurers also **use positive screening** to actively seek investments in companies or sectors that demonstrate strong sustainability credentials. Combined, positive and negative screening can help (re)insurers tilt their portfolios towards better rated ESG risks, and to **rate the portfolio's ESG performance against benchmarks** across a variety of sustainability criteria.

According to a 2023 survey<sup>2</sup> by New England Asset Management (NEAM) and The Insurer, 80% of Lloyd's managing agents have altered investment guidelines to include ESG parameters, up from 70% in 2022 and less than 40% in 2021. Of the <20% who have not already done so, 100% indicated their intention of doing so in the next 12 month, aligning with the expectations of Lloyd's.

A growing number of (re)insurers around the world also **target and report on their portfolios' impact against specific UN Sustainable Development Goals**. The choice of goals should be determined by the priorities set out in their broader sustainability agendas. **Climate risk models should also be integrated into investment strategies** due to the potential long-term impact on returns.

Many insurers outsource some or all of their investments to external asset managers, so selecting a manager that incorporates ESG criteria or has science-based targets in place is an impactful step. However, the NEAM survey found "managing agents seem cautious of fully

### STEPS TO ESG IMPLEMENTATION

- Set high level goals for the investment portfolio based on science-based targets and/or SDG alignment;
- Integrate ESG considerations into investment analysis and decision-making at every stage, including: asset allocation, portfolio management, manager selection, risk management;
- Incorporate a view on climate change risk into strategic asset allocation;
- Monitor and report on ESG performance;
- Exclude investment in assets with unacceptable emissions or ESG characteristics;
- Take active ownership of assets - maintain dialogue, actively engage on ESG issues and develop a voting policy to further ESG goals;
- Monitor and mitigate duplicated exposures and/or contradictory approaches on either side of the balance sheet.

"If insurers are serious about playing their role in the transition, they must embed sustainability in the investment process from start to finish."

*Kerry Adams-Strump, Oliver Wyman*

"Insurers are increasingly engaged with ESG, but embedding ESG within investment policy is challenging."

*Kasha Mleko, NEAM*

1. UNEP FI

2. New England Asset Management, 2023



committing to global ESG frameworks” with only 32% requiring their asset managers to be signatories of the PRI (Principles for Responsible Investing) and just 25% committing to Net Zero standards (up from 16% in 2021).

(Re)insurers should consider when selecting third-party managers:

- Does the manager incorporate ESG considerations into their decision-making process?
- How will they report on ESG ratings and metrics?
- Have they embedded ESG elements into the research, risk processes and portfolio construction?
- Do they adjust conviction on assets based on ESG factors?
- If they manage ‘green’ labeled funds, do you understand the methodology behind the label?

### The race to Net Zero

It is widely acknowledged that the investment portfolio of a typical insurer can account for up to half of its total emissions, or more, so implementing a strategy to track and manage emissions within the portfolio is key to enable insurers to meet stated sustainability goals.

According to Robeco, 39% of insurers have publicly committed to Net Zero investment portfolios and a further 28% were in the process of doing so - putting insurers ahead of most other institutional investor groups in this regard. Nearly two thirds (64%) have calculated Scope 1 and 2 emissions for their portfolios while around a quarter have taken available steps to measure Scope 3 emissions and a similar proportion have taken steps to understand investee emission reduction plans and Paris-alignment. More than a third (35%) have announced or implemented divestments away from carbon-intensive sectors/investments.

Divestment can deliver ‘quick wins’ in reducing the emissions intensity of the portfolio. However, often these assets simply fall into the hands of investors with lower standards, so we strongly advocate for (re)insurers to

actively engage with poorly-performing investees wherever possible in areas including:

- Setting science-based targets;
- Understanding transition plans and risks;
- Encouraging increased sustainability disclosure.

### Unlocking capital for climate solutions

The transition to a low carbon economy represents a multi-billion-dollar investment opportunity over the next two decades. (Re)insurers have an enormous role to play in providing both investment capital and risk financing to enable this transition, and in particular to accelerate the scale-up of emerging clean tech and climate solutions.

Challenges include a relative lack of scalable opportunities that offer stable, predictable returns, and the stringent fiduciary obligations (re)insurers must satisfy around liquidity, asset-liability matching, risk concentration, volatility and returns.

(Re)insurers have a key advocacy role to play, working with governments and regulators to encourage policies that incentivise investment into climate solutions, as well as providing greater clarity on how to incorporate climate risk into investment decisions.

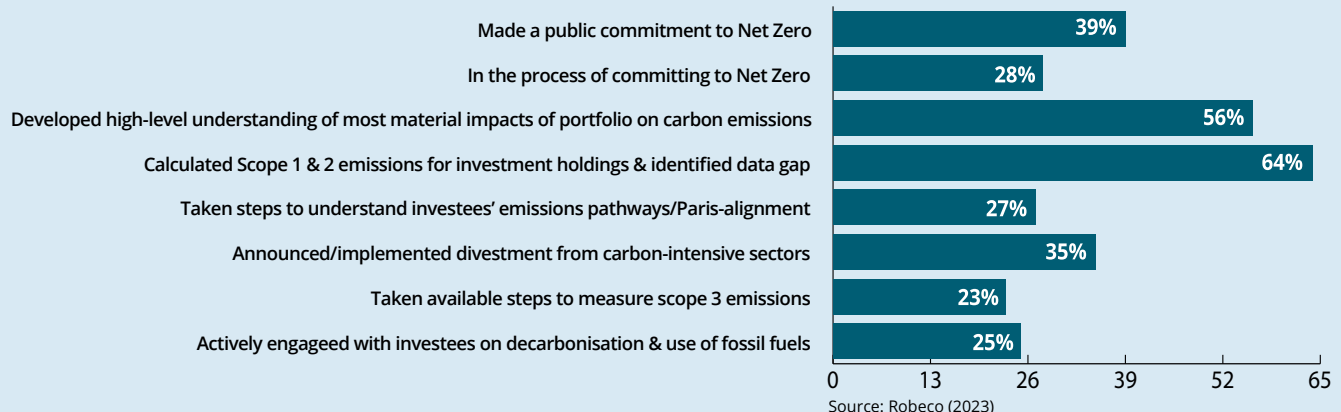
“ESG screening alone doesn’t make an active difference to the transition, you’ve got to use that information and be an active asset owner.”

*Kerry Adams-Strump, Oliver Wyman*

“Your investment ESG strategy has to align with your sustainability goals as an organisation. Outsourcing decisions that should be authentic to your business can set you up for a fall.”

*Kasha Mleko, NEAM*

### Insurer commitments



## Impact investment

Many insurers allocate a portion of their investment portfolio to impact investments which generate measurable social or environmental benefits alongside financial returns. This can involve, for example, investments in projects or companies contributing to sustainability objectives such as renewable energy infrastructure, affordable housing or sustainable agriculture.

The objectives behind impact investment can vary, including:

- Risk-adjusted returns with positive physical or social impact;
- Risk-adjusted returns supporting transition-related innovation;
- Investment prioritising impact over returns.

It's therefore important to put a strategic framework in place for the identification, screening and allocation of impact investments, outlining clear and distinct expectations in terms of risk appetite, impact goals, ownership, returns and overall purpose.

When selecting impact investments, asset selection criteria may include:

- Attractive risk-adjusted returns;
- Measurability of impact;
- Viability of underlying product/service/asset;
- Scalability;
- Alignment to UN SDGs.

*“Insurers and regulators need to work together to consider how allowances and capital restrictions might be adjusted to allow for investing in the transition. This might mean investing in companies that are at different stages on their transition journey and are considered potentially riskier assets - but these entities will be critical.”*

*Kerry Adams-Strump, Oliver Wyman*

*“Allocating even a small amount of capital to transition-related innovations can have a powerful impact and really help accelerate the transition to a Net Zero world.”*

*Insurer*

## ASSET-LIABILITY CONSIDERATIONS

One of the key challenges for insurers is that their assets and liabilities must be closely matched in duration, risk and volatility, which limits the range of assets they can invest in and the proportion of capital that can be allocated beyond their core portfolios. Shifting allocations into sustainable funds and/or new types of assets will inevitably have some impact on risk concentration, liquidity, and potentially financial returns.

As the vast majority of insurers' investment portfolios tend to be in high grade bonds, integrating ESG into the screening and selection process of government and corporate bonds is a top priority. As these underlying assets tend to be high quality, very large corporations, it can be difficult to influence their ESG policy unilaterally. The Principles for Responsible Investment provides guides to help institutional investors invest responsibly across a range of core asset classes, including fixed income strategies.

Within the fixed income space, new sustainable asset classes are attracting growing volumes of capital from (re) insurers, including ESG funds and green, social and sustainability bonds (see page 43). As the GSS universe is currently more mature and diverse in Europe, (re) insurers with US dollar-focused liability books may find it harder to allocate to GSS with comfortable levels of concentration risk.

Beyond the core fixed income portfolio, renewables, green infrastructure and real estate can play a significant role in insurers' alternative or real assets portfolio, albeit at the margins.

# In Focus: Green, Social, Sustainable Bonds

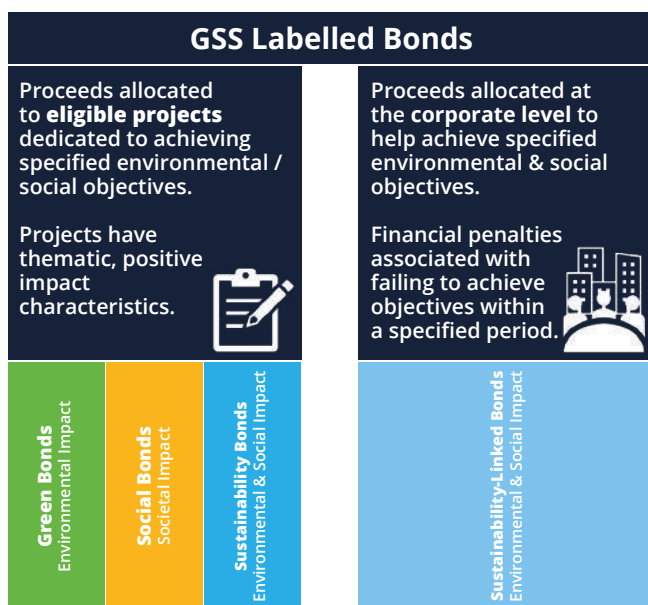
## How to add impact to a core fixed income portfolio

Initially focused on excluding controversial sectors and issuers from their portfolios, many insurers are now adopting a more nuanced approach to their sustainable investment strategies. They are increasingly looking for ways to bring positive impact into their investment strategy in addition to reducing exposure to controversy and managing downside risk. This is more challenging than one might initially expect, given the typically short duration, low risk nature of the typical insurance portfolio, especially in the case of non-life insurers.

### Why consider GSS bonds?

Historically, impact investing has more commonly been linked with private equity or venture capital. However, we see a growing recognition that impact may be driven in almost any asset class. Within core fixed income which comprises the lion's share of a typical insurance portfolio, Green, Social, Sustainable ("GSS") bonds, known also as Sustainable Debt or ESG Labelled bonds, provide an accessible, clearly defined route to impact investing.

These bonds provide investors with the means to support specific positive impact projects or corporate goals within the larger global issuers by means of a recognized format and, at times, with inbuilt penalties for failure. As a concept, that's a pretty compelling proposition for a cohort of investors who are comparatively constrained by high levels of regulation and complex liquidity requirements.



### Sustainability-linked bonds (SLBs)

Although experiencing an increase in appetite and issuance in 2021 due to being seen as financing more tangible change within companies, the popularity of SLBs has waned somewhat due to a general perception that the specified goals were often too 'easily' achieved and tended not to actually represent any material stretch for the issuer.

### Key considerations

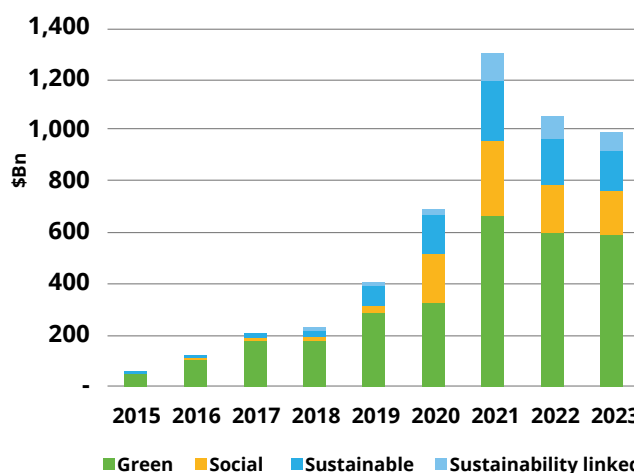
While certainly an attractive and accessible option for insurers looking to make their investment portfolios more sustainable, building out a meaningful allocation to GSS bonds does warrant a deeper understanding of several key considerations prior to committing to defined targets.

Importantly, it is essential that these considerations are reviewed within the context of an insurers' existing investment strategy, risk tolerance, liability profile, operational goals and stakeholder demands.

#### 1. Availability & diversification

GSS Bonds have been around for at least 15 years, but it is only in the last five years or so that we have seen a marked increase in issuance, driven by an upsurge in interest in sustainable investment. With the allure of more favorable financing and the desire to demonstrate more sustainable business practices, issuers have been willing to meet this demand.

**GSS Labelled Bond Issuance**

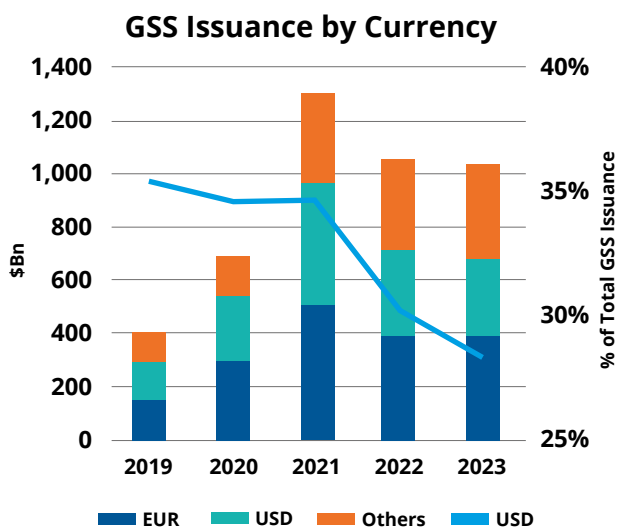


Source: Bloomberg and NEAM Analytics as at 15/11/2023

As the best established and well recognized of these kinds of instruments, Green Bonds continue to comprise the majority of issuance year on year. With the current focus on climate change mitigation efforts and increasingly biodiversity improvement and habitat loss prevention, we see no reason why this is likely to change any time soon.

Global issuance of GSS bonds fell off somewhat in 2022 due to the capital markets instability caused by the Russian invasion of Ukraine, rapidly rising inflation, and higher interest rates. Issuance in 2023 finished just above 2022 levels. A key factor in the lack of a full bounce back to 2021 levels is the relative absence of US issuers, largely due to

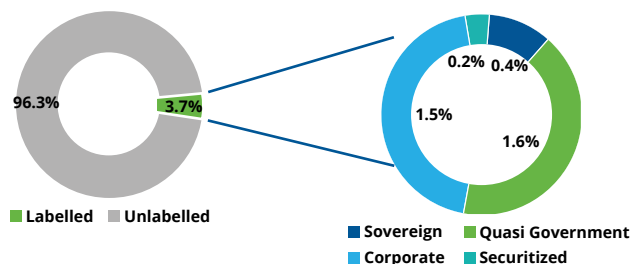
the political complexity relating to this topic and the wider “ESG pushback” in some states.



Source: Bloomberg and NEAM Analytics as at 15/11/2023

Despite the tremendous growth in the last few years, GSS bonds still only account for a small portion of global bonds outstanding. This is one of the key challenges for insurers in building up their allocation to GSS bonds. It is particularly challenging in US Dollar which is particularly relevant for global insurers and Specialty carriers.

**ICE Global Broad Market Index      GSS Bonds Sector Breakout**



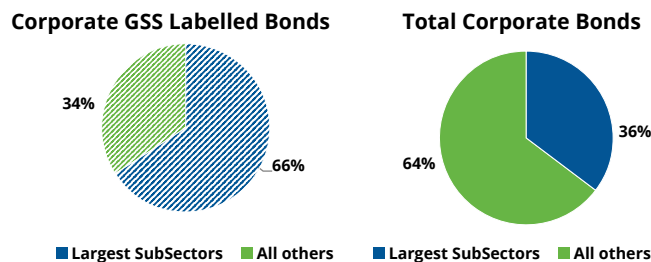
**Like-for like growth but still a small piece of the pie**

Here we use the ICE Global Broad Market Index (GBMI) as a proxy for the global bond market and find stark differences between the overall market and the GSS bond market.

This limited availability presents significant challenges in operating within existing investment guidelines for most non-life insurers, particularly when it comes to sector concentration, credit quality and duration thresholds. Issuance of these types of bonds is also almost entirely confined to the corporate and quasi government sectors with very little sovereign and securitized issuance.

Even within the Corporate sector, one of the larger issuing sectors, GSS bond issuance is still highly concentrated at 66% within just three sub-sectors (Utilities, Banking and Real Estate) while these sub-sectors only make up 36% of

the total corporate bond sector. EUR issuance is higher relative to USD, although that issuance is still largely concentrated in those same three sub sectors.



Source: ICE Indices, Bloomberg, NEAM Analytics

Relative to their weights in the overall index, EUR based GSS debt is currently five times that of USD based GSS debt. This can be attributed to a larger appetite from investors in Europe combined with a wider acceptance of ESG and sustainability related corporate goals and disclosure requirements and less negative political sentiment concerning the topic generally.

**2. The ‘Greenium’**

A key incentive for companies to issue into the GSS bond market is the financing incentive known more commonly as the ‘greenium’. This is the difference between the yield of a GSS bond and the yield of a characteristically similar non-GSS bond. GSS bonds, in theory, will garner more demand from sustainably minded investors relative to non-GSS bonds, forcing the GSS bond’s price higher and thus its yield lower.

This greenium is most evident in the European government sector. The German Bund is frequently used to gauge current levels because many of the variables that can lead to yield differences between bonds have been minimised:same issuer (Republic of Germany); same coupon (0%); same maturity date (15/8/2030).

**German Bund Greenium**



Source: Bloomberg and NEAM Analytics at 15/11/2023

While the greenium is discernable in the European government bond market, and to a lesser degree in the European corporate and quasi-government markets, it is not evident in US corporate bonds, largely due to less demand in the domestic market. On the surface it may appear a greenium exists in this market, however, once one accounts for differences in price, coupon, maturity, etc., the greenium tends to disappear.

Insurers ought to have a clearly defined appetite, agreed upon internally and with their asset managers, for any potential give-up in yield by purchasing these types of bonds. This give-up should be quantified against the appetite for progressing corporate sustainable objectives and the demands of each insurers' specific stakeholders.

### 3. A label is not always the whole story

While there is currently no globally recognised labelling standard, the ICMA<sup>[1]</sup> principles are currently the best recognized of their type and adoption of these principles has grown significantly in recent years. These at least require an issuer to obtain a 3rd party review which gives some level of confidence, but is by no means a guarantee, as to a label's validity. Irrespective, it is important for investors to look under the covers and to understand the nature of the project or goals being promoted by their investment so as to assess the level of impact provided and avoid inadvertent 'Greenwashing'.

However, it is worth noting that increased awareness amongst investors and a growing level of scrutiny by regulators, point to these frameworks becoming more consistent and robust.

It is also important that insurers should not become too blinkered by 'labels'. There is naturally more to impact investing in fixed income than just a label. A company's mission may be just as valuable an indicator as a defined label since the very nature of their business could be viewed as having impact. For example, an electric vehicle manufacturer's un-labelled debt could be viewed as making just as much impact by investors interested in energy transition.

Another investor, focused on social issues, may find the unlabelled debt of a development bank or an inner-city school district meets its criteria for impact. In broadening the focus from strictly labelled issues while still evaluating opportunities through the lens of labelled bond principles, investors can increase their investable universe, reduce concentration, and take the question of appetite for swallowing potential greenium out of the equation.

## IMPLEMENTATION CONSIDERATIONS

- The imperative for insurers to actively target transparent, robust sustainable investment opportunities is only likely to grow and insurers would do well to future proof their strategies now.
- Given current issuance levels and trends, GSS bonds can only reasonably be expected to form a 3-10% allocation of the average non-Life, multi-currency portfolio in the near term. To expand this allocation, insurers would do well to encompass non-GSS bonds from issuers with defined missions of intrinsically positive sustainable characteristics.
- In our view, GSS bonds are not a 'silver bullet', but one important tool in insurers' sustainable investment 'toolkit' and certainly worth serious consideration. Ideally, they should be used as one component of a wider investment strategy which should also be reflective and aligned with any wider operational or underwriting strategies and goals at play.



**Robb Barnum**  
ESG Risk Manager  
New England Asset  
Management Inc.



**Kasha Mleko**  
New Business  
Development  
Professional  
New England Asset  
Management Ltd.

[1] International Capital Market Association (ICMA)

This publication has been prepared solely for general informational purposes and does not constitute investment advice or a recommendation with respect to any particular security, investment product or strategy. Nothing contained herein constitutes an offer to provide investment or money management services, nor is it an offer to buy or sell any security or financial instrument. The investment views expressed herein constitute judgments as of the date of this material and are subject to change at any time without notice. Future results may differ significantly from those stated in forward-looking statements, depending on factors such as changes in securities or financial markets or general economic conditions. While every effort has been made to ensure the accuracy of the information contained herein, neither New England Asset Management, Inc. ("NEAM, Inc.") nor New England Asset Management Limited (together, "NEAM") guarantee the completeness, accuracy or timeliness of this publication and any opinions contained herein are subject to change without notice. This publication may not be reproduced or disseminated in any form without express written permission. NEAM, Inc. is an SEC registered Investment Advisor located in Farmington, CT. This designation does not imply a certain level of skill or training. In the EU this publication is presented by New England Asset Management Limited, a wholly owned subsidiary of NEAM, Inc. with offices located in Dublin, Ireland and London, UK. New England Asset Management Limited is regulated by the Central Bank of Ireland. New England Asset Management Limited is authorised by the Central Bank of Ireland and subject to limited regulation by the Financial Conduct Authority. Details about the extent of our regulation by the Financial Conduct Authority are available from us on request. This is not an offer to conduct business in any jurisdiction in which New England Asset Management, Inc. and New England Asset Management Limited are not registered or authorized to conduct business.



# 3 LEVER 3 OPERATIONS

How (re)insurers are cutting emissions and implementing sustainability in their operations, workforces and supply chains

## Operational sustainability

Operations represent only a small proportion of a typical non-life (re)insurer's emissions, but this is the area in which (re)insurers can exert most direct control over emission reduction efforts and achieve many quick, tangible wins. Implementing sustainability into operations also presents an opportunity to raise awareness and foster a culture of sustainability across the organisation.

The first step is to **establish a governance structure** through which to set and execute on the sustainability strategy, assigning responsibility to individuals and/or committees in key pillars of the organisation.

Next, it's essential to **conduct an assessment to identify key sustainability challenges and opportunities**. This should include, for example, capturing granular emissions data from across the organisation's activities and supply chains to identify hotspots and priority action areas. Using this data as a baseline, you can then **set science-based targets and design initiatives** to execute on them.

Accountability, transparency and communication is key in the execution phase, which demands a structured approach to reporting, performance management and employee engagement.

### Emissions reduction efforts

The primary focus for many (re)insurers is to drive down operational emissions towards Net Zero. (Re)insurers can use the Cambridge Institute for Sustainability Leadership's (CISL) Carbon Hierarchy to prioritise actions on this path:

1. **Avoid** activities that generate emissions;
2. **Reduce** emissions by changing and improving processes;
3. **Replace** high carbon energy sources with low carbon alternatives;
4. **Sequester** carbon from activities, such as through carbon capture and storage;
5. **Offset** residual emissions that cannot be eliminated.

Common emission reduction efforts undertaken by (re)insurers include:

- Powering buildings with renewable energy
- Switching to an EV fleet (switching to hybrid vehicles may be a first step)
- Encouraging/incentivising employees to use shared/public transport, bicycles, etc.
- Reducing air travel
- Improving energy efficiency in buildings (e.g. LED lights, choice of aircon)
- Improving IT energy efficiency (e.g. setting computers to energy saving mode, consolidating printers)
- Implementing e-waste guidelines

- Facilitating recycling wherever possible
- Reducing paper consumption (internally and in customer communication)
- Choosing to 'repair over replace' damaged items
- Calculating and reducing supply chain emissions
- Sourcing sustainably produced and recycled goods
- Purchasing carbon credits via carbon offsetting programmes
- Establishing an internal carbon fund

An internal carbon fund puts a price on carbon emitted in business operations. This can be an effective way of pooling capital to fund sustainability-related initiatives, such as carbon reduction efforts or supporting sustainable product innovations that may only deliver financial rewards over a long-term horizon, for example.

### Procurement & supply chains

As an insurer's supply chains include goods and services procured to maintain business operations as well as the fulfillment of claims, the supply chain represents a significant portion of an insurer's Scope 3 emissions (according to the Association of British Insurers (ABI), this could be up to 90% for general and health insurers). It is therefore a high priority action area.

Many insurers have implemented supplier codes of conduct requiring them to share information on emissions, transition plans and other sustainability credentials, and the Sustainable Markets Initiative (SMI) and insurance bodies in various jurisdictions have issued guidance to help insurers reduce supply chain emissions.

The ABI, for example, published a Good Practice Guide<sup>1</sup> focused on supply chains, and its Climate Roadmap requires UK insurers to have engaged pro-actively with suppliers to ensure supply chain emissions are included within the scope of the sector's decarbonisation targets.

ABI highlights four key areas for insurers to focus efforts:

- Taking account of emissions reduction strategies and targets in supplier on-boarding
- Making sustainability a factor in decision making on suppliers
- Tracking emissions and driving further change
- Changing how we use products and services to support a 'circular economy'

"Our next step is moving from carbon neutral operations to Net Zero. That means moving away from 'avoided carbon' certificates and evidencing carbon removal."

*Insurer*

1. Association of British Insurers

This process starts by mapping emissions throughout the supply chain to identify hotspots. As mentioned on pages 35-36, capturing emissions data from suppliers is a complex task and data may be patchy and inconsistent. It is therefore prudent to focus on the largest companies who are likely to be the biggest emitters and most likely to capture reliable data.

SMI recommends consulting the Greenhouse Gas (GHG) Protocol's Corporate Value Chain (Scope 3) Standard to support Scope 3 emission calculations. Insurers can also point SMEs to resources like the UK's SME Climate Hub or the SBTi Resources for guidance to encourage them to begin their own assessments.

When engaging suppliers, SMI recommends insurers should focus, in the first instance, on gathering information on whether the supplier has:

- Committed to setting Science-Based Target initiatives;
- Set Science-Based Targets;
- Assessed their Scope 1, 2 and 3 emissions;
- Published their emissions footprint as part of external reporting obligations;
- Taken action to embed other sustainability initiatives within their supply chain.

The next step is to encourage suppliers to report on and reduce their emissions, with the aim of adjusting procurement strategy over time. SMI outlines these aims over three timescales:

**Short-term:** Placing positive weighting criteria on how far suppliers measure and disclose Scope 1, 2 and 3 emissions and if they are committed to Science-Based Targets.

**Mid-term:** Increasing weighting criteria further where more emphasis is placed on whether suppliers publish their Scope 1 and 2 emissions and scoring is based on actual tCo2e per £revenue.

**Long-term:** Sustainability weighting is increased further and certain hotspot suppliers may no longer be invited to bid.

### The bigger sustainability picture

Beyond reducing emissions, (re)insurers are implementing a wide range of initiatives to make their business operations more sustainable from both an environmental and social perspective. Below are examples we are seeing in the market today.

**Social mobility programmes.** For example, recruitment schemes targeting candidates underrepresented groups and geographies.

**Sustainability KPIs.** Linking remuneration and bonuses to social or environmental metrics relevant to specific job functions.

**Supplier codes of conduct.** Procuring goods and services only from suppliers that meet defined ethical, environmental and governance standards, and/or who can demonstrate credible transition plans.

**Green teams and champions.** Foster bottom-up initiatives and cross-departmental cohesion by appointing individuals and teams to drive sustainable workplace practices in different areas of the business.

**Employee engagement programmes.** Engage employees and spark ideas by running internal events and initiatives (e.g. 'Climate Week' or 'Diversity Month'), bringing people together from across departments through a range of events, learning activities, talks, competitions, collaborative activities or idea forums.

**Employee training.** (Re)insurers are increasingly exploring ways to educate employees on sustainability, from technical workshops to universal qualifications like the Foundation in Sustainable Insurance Certificate<sup>2</sup>. Understanding why sustainability matters to (re)insurers (including risks, technical challenges and opportunities) empowers employees to innovate and helps win buy-in from front-line professionals whose roles will increasingly involve sustainability-related data capture and reporting.

**Sustainable food sourcing.** Bringing sustainably produced food into on-site cafeteria and raising employee awareness around nutrition.

**Wellbeing programmes.** Proving access to wellbeing services like mindfulness, yoga, counselling, gym memberships and educating employees on the benefits.

**Green working spaces.** Incorporate nature into office spaces to improve employee wellbeing.

**Employee volunteering programmes.** Giving back to communities and social/green initiatives while strengthening employee engagement on social and environmental issues.

**Charity partnerships.** Financial donations to support causes aligned with the company's overarching sustainability goals.

*"A carbon fund can fund anything from operational emissions reduction to more innovative customer solutions, as well as being a powerful employee engagement tool."*  
*Insurer*



# Carbon offsetting

Like all organisations, (re)insurers need to use every tool at their disposal to achieve emission reduction goals. 'Carbon offsets' are one such tool that – if used responsibly as part of a broader decarbonisation strategy – can help avert the worst impacts of climate change.

Carbon offsetting typically involves supporting projects that reduce or remove an equivalent amount of emissions elsewhere such as carbon capture or reforestation projects. Purchasing offsets through these schemes cannot compensate for the huge volumes of emissions attributable to underwriting and investment portfolios, and should never be seen as a substitute for taking direct action to reduce emissions at source. However, in addition to operational improvements, portfolio optimisation and client engagement, offsetting the hardest to abate emissions in the business, such as corporate travel, can play a valuable role in a (re)insurer's Net Zero strategy.

It is essential the greenhouse gas (GHG) removal of these projects is real, quantifiable and verifiable so they can reliably offset your organisation's reported emissions. So how do you choose the right scheme?

## 1. Only use verified projects

Well known global verification organisations include VERRA and Plan Vivo. There are also industry- and location-specific standards that are well regarded for particular geographies, sectors or offset types.

## 2. Check the issuer's track record

How established is the organisation running the offsetting scheme and what is their experience? If possible, also find out how much of the cost is reinvested into the project.

## 3. Diversify your portfolio

To minimise risk of failed delivery or reversal of offsets, as well as potential related litigation or reputational damage, it's advisable to create a diversified portfolio of offset projects incorporating a range of GHG removal methods, providers and geographies.

"Offsets help us neutralise our hardest to abate emissions."

*Insurer*

## KEY CONSIDERATIONS

- Verification agent/registry
- Offset provider
- Offset vintage
- Portfolio diversification
- Ability to monitor and audit GHG impact
- Align with recognised standards

The Carbon Offset Guide<sup>1</sup> sets out five pillars of a high quality offsets and suggested questions for buyers to ask, outlined below:

**1. Additional.** The GHG reduction wouldn't have already happened in the absence of the project. Questions:

- How large is the project's offset credit revenue stream compared to other revenue streams or cost savings achieved by the project?
- Would the project cease reducing emissions if it did not continue to receive carbon offset revenues?

**2. Not overestimated.** The volume of GHGs removed must be accurate, reported and verified. Questions:

- Does the project apply any deviations from the protocol/ methodology and appropriately justify these deviations?
- Are there any gaps or other discrepancies in project monitoring data, and have these discrepancies been properly explained and addressed?

**3. Permanent.** GHGs must be removed for the long-term, not temporarily. Questions:

- Does the project have a formal plan for managing and reducing reversal risks, and is this plan being followed?
- How long is "permanence" guaranteed by the offset issuer?

**4. Not claimed by another entity.** GHG removal must be exclusive to the specific project. Questions:

- When offset credits are retired, is the purpose of the retirement clearly indicated in an offset programme registry?
- Were the offset credits issued for indirect emission reductions?

**5. Not associated with significant social or environmental harms.** Questions:

- Prior to implementation, did the project developers engage and consult with local stakeholders potentially affected by the project?
- What has the project done to minimise risks and reduce potential harm?

1. Carbon Offset Guide

An aerial photograph of a road with a dashed white center line. The left side of the road is covered in a dense forest of evergreen trees heavily laden with snow, creating a white and blue winter scene. The right side of the road is a lush green forest of evergreen trees, representing a summer scene. A dark, semi-transparent rectangular box is overlaid on the top portion of the image, containing the text '4 GOALS FOR 2024-5' in white, bold, sans-serif font.

# 4 GOALS FOR 2024-5

## Goals for insurers

Below are 10 objectives for (re)insurers and the industry in 2024-5 to help accelerate the transition to a more sustainable world through tangible, immediate actions.

### 1. Ramp up engagement on decarbonisation

(Re)insurers are making progress on measuring, reporting and target-setting related to underwriting-associated emissions. However, this is yet to reflect in material reductions in underwriting emissions. To align with the Paris Agreement, underwriting emissions need to fall by more than 40% by 2030, so that means actively engaging with clients today both on their transition plans, advising on meaningful actions they can take to reduce their emissions today, and holding them to account at the next renewal.

### 2. Mainstream resilience & adaptation within business models

Resilience and adaptation are key to preserving the long-term insurability of assets and profitability of (re)insurers in a changing climate. Climate risk assessment and 'build back better' provisions should be mainstreamed across multiple classes of business. Efforts by clients to build resilience against climate-related physical and transition risks should be considered and incentivised in the underwriting process. And climate-related physical and transition risks should be incorporated into risk models as standard.

### 3. Get creative to unlock capital for climate innovation

As investors and underwriters, (re)insurers need to do more to finance and de-risk the innovation of climate solutions and clean technology. Faced with sparse historical loss data, unproven business models and unfamiliar risk profiles, the industry needs to expand its expertise and explore collaborative new insurance structures and solutions to overcome these barriers and accelerate capital flow.

### 4. Develop a standardised approach to Scope 3 emissions measurement

The industry needs to develop a standardised approach to measuring and reporting Scope 3 underwriting emissions. Work currently being undertaken on this in the Lloyd's market may lay the foundations for wider adoption. Given the challenges around assessing and engaging on clients' scope 3 emissions, the industry would benefit from a clear definition of what Scope 3 really means for an insurer, based on what it can reasonably be expected to report on or influence.

### 5. Get a grip on sustainability in the claims process

Claims is still being overlooked despite being the most tangible real-world touchpoint for most insurers and a major source of Scope 3 emissions. (Re)insurers should be implementing sustainable claims strategies, engaging proactively with customers and suppliers and collaborating to develop economies of scale to drive down the cost of green repairs. (Re)insurers would benefit from standardising claims emissions and sustainability impact metrics and Scope 3 disclosure categorisations; and from developing emissions calculation proxies/averages for certain classes of business and/or types of claim.

## 6. Develop tangible customer incentives

Many (re)insurers plan to embed ESG factors into risk selection and pricing over the longer-term to reflect the risk benefits of actions such as climate adaptation and/or incentivise companies to reduce emissions and adopt more sustainable approaches. But beyond high level exclusions, there are few tangible incentives in place today. While ESG-linked pricing models are still some way off, (re)insurers could consider ideas such as offering rebates linked to ESG or transition targets being met; carbon offsets as part of the claims process; or access to add-on advisory services on issues like energy efficiency advice or climate resilience, for example.

## 7. Deepen exploration of ESG-linked pricing models

A number of insurers have told us they are conducting internal studies to determine links between client ESG characteristics and loss performance. Many expect ESG factors to influence risk selection and pricing in the next five years. However, political and competitive sensitivities create a significant barrier to action. More analysis need to be conducted and the data made publicly available to illustrate the links between certain ESG factors and certain perils/classes of business. This will bring more clarity to: a) the debate over whether ESG is truly a risk consideration; and b) the feasibility of ESG-linked pricing being used as a lever through which (re)insurers can influence behaviour.

## 8. Get moving on nature risk assessment and disclosure

With the Corporate Sustainability Reporting Directive (CSRD), Task Force on Nature-Related Financial Disclosures (TNFD) and other disclosure frameworks on the horizon, (re)insurers need to start making tangible process on identifying, measuring and assessing their nature-related risks, impacts and opportunities, using the TNFD LEAP framework as a guide. With 30% of land and water areas to be protected or under restoration by 2030, the industry also needs to start developing scalable nature-based insurance solutions and exploring ways to incorporate nature positivity into traditional coverage.

## 9. Align business models with UN Sustainable Development Goals (SDGs)

The insurance industry has the potential to support many UN SDGs but has to date made limited progress on quantifying its impacts on these social agendas, particularly on the underwriting side of the balance sheet. Going forward, (re)insurers should identify SDG-aligned impacts within their sustainability strategies and set science-based targets to track and report on their progress.

## 10. Develop a roadmap for de-risking the agri-food system transition

Developing a more sustainable, regenerative and lower carbon agriculture and food system is critical to addressing climate change, nature degradation and food security. (Re)insurers must do more to understand what changes are needed and the role of insurance in de-risking and financing innovation in this sector, and start engaging with agri-food clients to support them through this transition.

# About Better Insurance Network

Formed in 2021, Better Insurance Network is a growing community of insurance practitioners committed to amplifying the insurance industry's role in the transition to a more sustainable, low carbon economy. Our mission is to raise literacy among insurance professionals to empower action, drive best practices and accelerate the implementation of sustainable insurance.

We partner with market-leading insurers, brokers and service providers to bring solutions and ideas to targeted groups of practitioners through events, research, networking and educational content. Our membership includes sustainability specialists, underwriters, brokers, senior leaders, operations, claims and HR professionals in more than 25 countries.

Working together, we can help turn talk into action - not just among insurers but also the wider community of insureds, investees and communities our industry serves.

Join our community here:

[www.betterinsurancenetwork.com/plans/membership/](http://www.betterinsurancenetwork.com/plans/membership/)

Follow us on LinkedIn:

[www.linkedin.com/company/better-insurance-network](http://www.linkedin.com/company/better-insurance-network)

## Pioneering training and events

In 2023, Better Insurance Network launched Sustainability for Insurers e-learning, a digestible online course on sustainable insurance for anyone working in insurance. The 8-hour syllabus and 'Foundation in Sustainable Insurance' certificate was developed in collaboration with 10+ leading insurance organisations and is the only course of its kind for people in insurance. To learn more, visit [www.betterinsurancenetwork.com/training](http://www.betterinsurancenetwork.com/training).

Better Insurance Network also produces the annual Sustainable Insurance Summit, the first global virtual event dedicated to the practical implementation of sustainability in underwriting and operations. To learn more about this and other upcoming events, visit [www.betterinsurancenetwork.com/events](http://www.betterinsurancenetwork.com/events).

## Contact

**Antony Ireland**

Founder

[antony@betterinsurancenetwork.com](mailto:antony@betterinsurancenetwork.com)

[www.betterinsurancenetwork.com](http://www.betterinsurancenetwork.com)



## Disclaimer

Our work has been carried out on the basis that any information supplied (whether or not in writing and by management or otherwise) to Better Insurance Network, and on which our work is based, is complete, accurate and not misleading. Better Insurance Network has not independently verified such information. Because Better Insurance Network is limited in nature and scope, Better Insurance Network cannot be relied upon to discover all documents and other information or provide all analyses that may be of importance in this matter. This report should not be used as the sole basis for evaluating any transaction or other matter. The recipient should conduct its own investigation and analysis of the transaction or matter and the information contained in this report. All decisions in connection with the implementation of any recommendations in this report are the sole responsibility of the recipient. Better Insurance Network has not been instructed to do, and have not done, any of the following: Make investment decisions; provide investment advice; determine levels of finance; act or negotiate on behalf of the recipient, or act as management. Better Insurance Network is not qualified to give legal advice: None of the information contained in this report constitutes legal advice. The content in this report has been produced by Better Insurance Network alone, and does not represent the views of our partners Oliver Wyman and New England Asset Management.



**BETTER INSURANCE**  
NETWORK

Supported by:

 **OliverWyman**

 **NEAM** New England  
Asset Management

