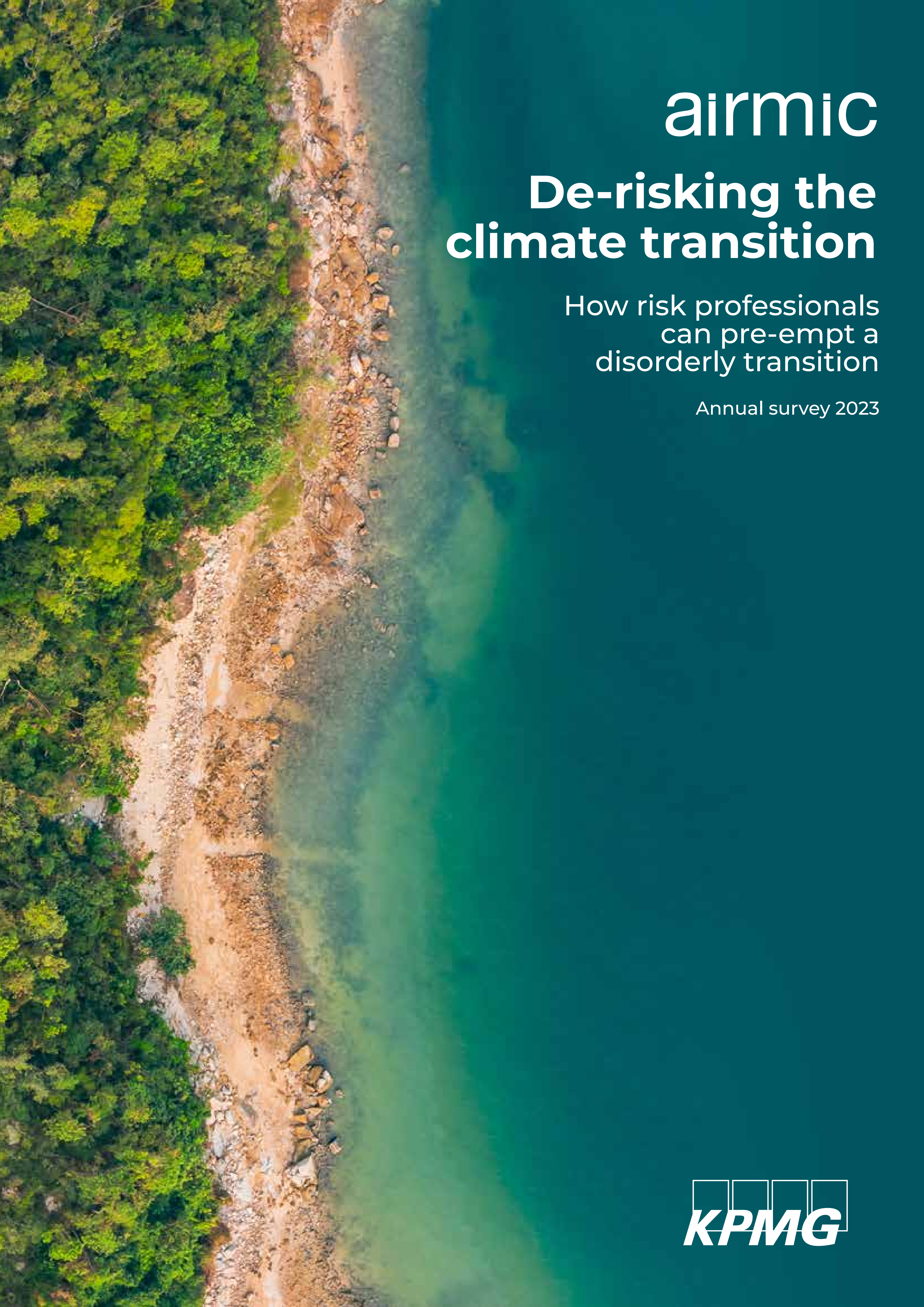


airmic

De-risking the climate transition

How risk professionals can pre-empt a disorderly transition

Annual survey 2023

KPMG

Contents

Executive summary

1. Airmic members are important insurance buyers. The estimated total annual insurance spend in 2022 for the organisations that they represent was £14.5 billion. They are well positioned to bring synergy between insurers – large corporations which are making some of the most consequential climate commitments in the world today – and the businesses and organisations they are helping to navigate the climate transition.
2. 53% of respondents lack clarity about the budgets their organisations have set for their transition plans. In line with good practice, the transition plans of organisations should describe the supporting financial plans, budgets and related financial targets, such as the amount of capital and other expenditures supporting their decarbonisation strategy.
3. One of the key challenges faced by risk professionals today as part of the climate transition lies in accurately measuring the Scope 3 emissions of their organisations – emissions that are the result of activities from the organisation's value chain. At times, they have had to rely on low-quality data from their supply chain partners or have had no option but to make estimations based on third-party sources such as industry averages.
4. Airmic members are calling for more consistency on the climate-related questions asked by underwriters as part of their underwriting submissions to insurers.
5. Concerns over reputational risks trump all other climate-related insurance gaps for organisations.

6. There is a sense from the roundtables run by Airmic that the onslaught of climate regulations today could have the perverse effect of leading to less disclosure and more 'green hushing'.

7. While the anti-ESG movement is predominantly still a US phenomenon, pension fund investments are among the most affected by this stance. The organisations of some Airmic members with sustainability products in some of the US states that have passed anti-ESG legislation are faced with a commercial challenge.

8. Risk professionals are looking to insurers, brokers and consultants to help with data and project management, reporting and modelling – for the purpose of compiling the Task Force on Climate-related Financial Disclosures (TCFD), among other requirements.

9. The voice of the customer is becoming more consequential in the insurance industry's climate transition. Airmic members are increasingly including reference to ESG priorities and actions in their insurance renewal presentations. Where their organisation has a captive insurance company, it is likely to connect with the parent on ESG. Some of their captives have an ESG framework and they too formally assess ESG performance.

10. Over 40% of respondents say they consider the positions of insurers and brokers on ESG issues, when considering whom they will use.

Introduction

Reaching net zero is now an imperative, as governments and organisations are increasingly committing to climate action. Climate transition plans matter because action is required at both the strategic and operational level for them to turn net zero commitments into reality.

But, increasingly, organisations including the World Economic Forum (WEF) are warning of a disorderly climate transition, where divergence on the direction of travel between countries and between business sectors is becoming a barrier to much-needed cooperation. At worst, societies could be torn apart if the climate transition "fails to account for societal implications" that will "exacerbate inequalities within and between countries, heightening geopolitical frictions".[1]

The responses to the Covid-19 pandemic revealed how fragile societies could be and also how different the national responses were. While bringing questions of responsible business conduct to the fore, Russia's invasion of Ukraine has also raised the geopolitical stakes for global businesses. All of this impacts how countries and businesses collaborate in the race to net zero.

Risk professionals have a role to play. They are at the front lines of businesses, whether they are navigating their organisations through the impact of physical climate risks such as rising sea levels, or tackling Scope 3 emissions in their supply chains, or addressing intangible risks that are the result of reputational threats from greenwashing and from a new wave of regulations.

They are also well placed to bring synergy between insurers – large corporations which are making some of the most consequential climate commitments in the world today – and the businesses and organisations they steer as risk professionals.

Airmic and KPMG have collaborated on research to better understand the role of risk professionals in the climate transition today, the challenges and opportunities they face, and the issues each of their sectors are up against. This report is a culmination of findings from a survey of Airmic members and a roundtable comprising members of Airmic's Climate Special Interest Group.

A disorderly transition may well be a fact of life to be embraced, as the WEF believes. Nevertheless, we need to de-risk the climate transition as much as possible and pre-empt an overly disorderly version of it, so as to deliver the promises of climate action for future generations.

[1] World Economic Forum, Global Risks Report 2022, p. 9.

Working together with the insurance industry

Risk professionals and insurers need to work together to understand the opportunities and the associated risks that will occur from the climate transition – risk professionals in terms of understanding the new products, technologies, investment and ways of working that their organisations will need to adopt to survive, and insurers in terms of the potential sectoral macroeconomic and physical risks that may occur.

In the joint 2021 report on Working together to tackle climate risks, Airmic and KPMG called for greater collaboration between (re)insurers, corporate risk managers and brokers, to ensure that our industry has a leading voice in the challenges ahead of moving the global economy to net zero.

The report also found the need for a better strategy of 'greening' the whole landscape of industries, where carbon-intensive industries are offered more help in managing the transition risks to a green economy. When insurers simply decline to insure carbon-intensive industries, they are offloading the coverage of those industries to smaller insurers that may be less well equipped to address any fallout from climate risks.

Airmic is dedicated to fostering greater dialogue between insurers, brokers, insurance buyers and risk professionals to ensure that their climate initiatives have the right intended consequences on the global economy, so that significant progress can be made towards net zero. Airmic is also actively investing in equipping risk professionals with the knowledge and skills relating to climate risk through initiatives such as the launch of a virtual Climate Risk Management School.

Risk professionals are well placed to bring synergy between insurers – large corporations which are making some of the most consequential climate commitments in the world today – and the organisations they steer.

Setting net zero targets

Organisations are making significant progress in setting net zero targets, as they prepare transition plans that can stand the scrutiny of a wide range of stakeholders such regulators, investors, insurers and activists.

A climate transition plan sets out how an organisation will adapt as countries move towards a low carbon economy. The transition plan should provide high-level targets, interim milestones and actionable steps to meet those targets, and link performance to remuneration.[2]

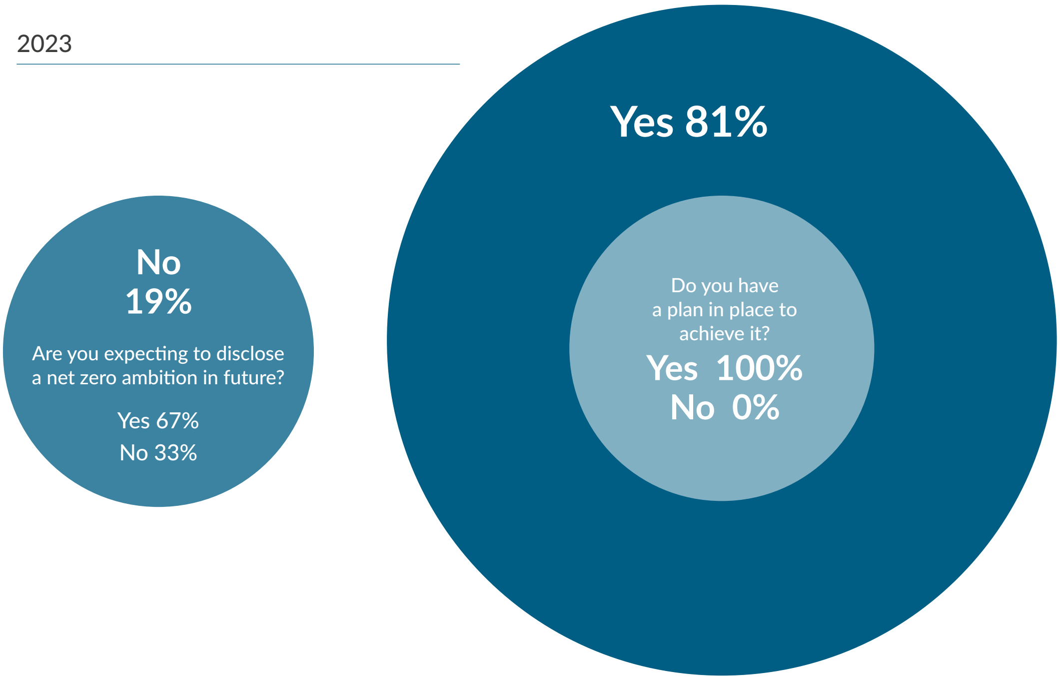
In the UK in April 2022, HM Treasury launched the Transition Plan Taskforce (TPT) to develop the gold standard for transition planning for the private sector, by building on international disclosure standards.[3]

[2] https://kpmg.com/uk/en/home/insights/2022/05/climate-transition-plan-what-you-need-to-know.html
[3] https://transitiontaskforce.net/

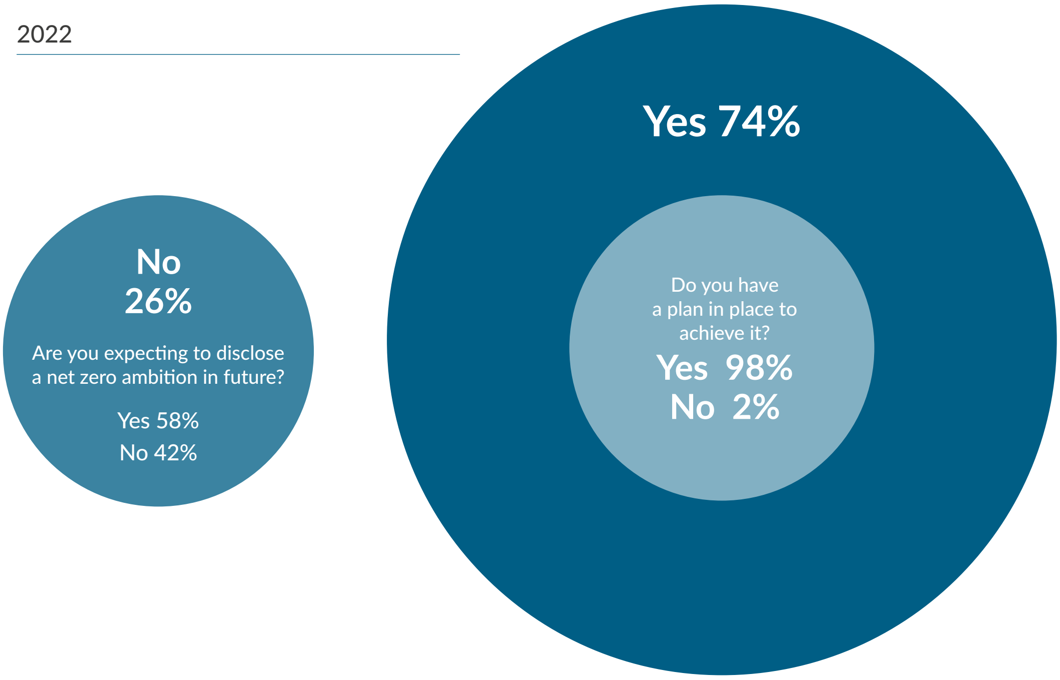
Organisations are making significant progress in setting net zero targets

Has your organisation disclosed a net zero ambition?

2023



2022



Risk professionals and insurers need to work together to understand the opportunities and the associated risks that will occur from the climate transition – risk professionals in terms of understanding the new products, technologies, investment and ways of working, and insurers in terms of the potential sectoral macroeconomic and physical risks that may occur.

Financing the transition: Organisations need clearer strategy

To transform the global economy to achieve net zero emissions by 2050, it is estimated that $9.2 trillion in annual average spending on physical assets is needed. That works out to be $3.5 trillion more than current levels of spending – or half of global corporate profits and one-quarter of total tax revenue.

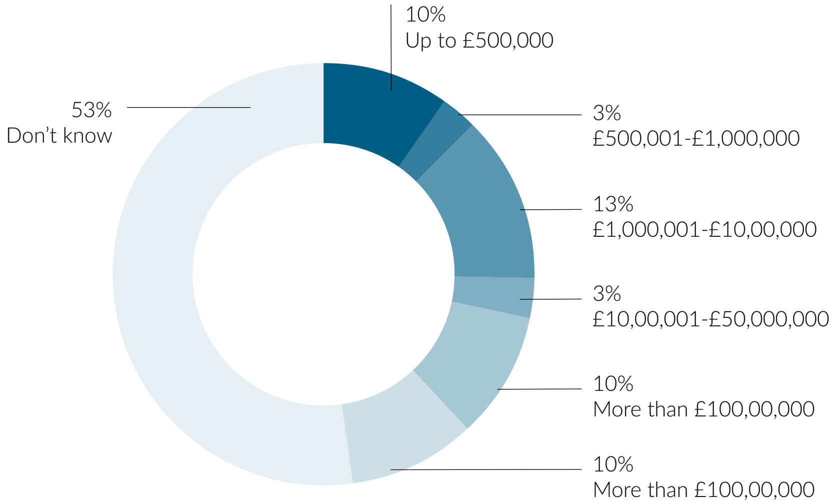
Yet, a majority of our survey respondents lack clarity about the budget which their organisations have set aside for their transition plans. In their guidance, the Task Force on Climate-related Financial Disclosures (TCFD) recommends that the transition plans of organisations describe the supporting financial plans, budgets and related financial targets, such as the amount of capital and other expenditures supporting decarbonisation strategy.

Climate transition plans are not just a cost centre for organisations – there are opportunities to be seized. Supplying the goods and services to enable the global net zero transition could be worth £1 trillion to UK businesses by 2030.

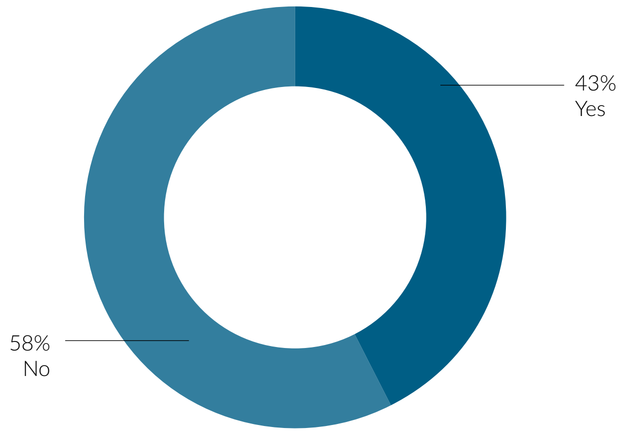
More broadly, organisations need to have a better understanding of how they are going to transition. Risk professionals have an integral role to play here. They also say that they are looking to insurers, brokers and consultants to help with data and project management, reporting and modelling – for the purpose of the Task Force on Climate-related Financial Disclosures (TCFD), among other requirements.

53% of respondents lack clarity about the budgets their organisations have set for transition plans

What budget has your organisation set for its climate transition plan?



Are you seeking more services from insurance brokers/insurers/risk consultants to help with your organisation's climate transition journey?



The data challenge: Scope 3 emissions and other data requests

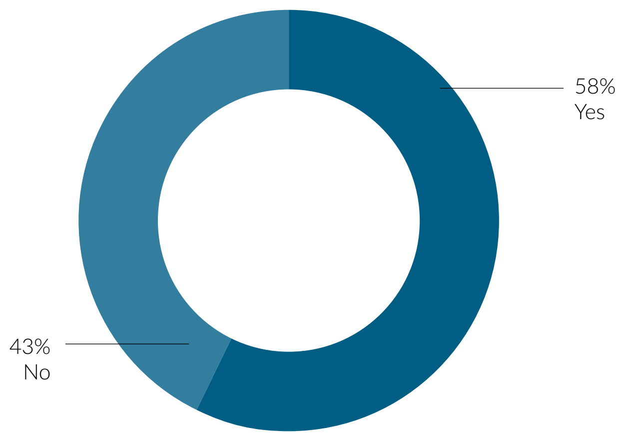
One of the key challenges today in making the climate transition relates to how an organisation can accurately measure its Scope 3 emissions – emissions that are the result of activities from the organisation's value chain. At times, they have had to rely on low-quality data from their supply chain partners or have had no option but to make estimations based on third-party sources such as industry averages.

Organisations are also receiving multiple requests for climate data – from regulators, investors, insurers and activists, for instance – which can be onerous to respond to if they lack a large team and or additional systems to capture the data requested.

To deal with such requests, some risk professionals have sought to establish – as a baseline – a set of climate-related metrics which are of relevance to as many of their stakeholders as possible, and then draw from that dashboard when asked for more information. Yet others have stepped back to consider what climate data is material to their business, to determine the metrics that would drive their journey towards greater sustainability.

In term of making underwriting submissions, Airmic members are seeing that questions from insurers lack consistency as to their focus. For instance, some insurers focus on the climate impact on their operations, while other insurers may be more interested in whether their client is involved in a specific type of product. This means that the process of placing their insurance cover annually can be a major burden on the resources that risk and insurance professionals have at their disposal.

Does your organisation get multiple requests to provide data on climate issues?



From whom do you get requests on climate issues?

Government	Clients
Regulator	Insurers
Banks	Brokers
Central banks	Activists
Lenders	Academics
Shareholders	

"Personally, I think there are some questions around data quality and how you measure Scope 3 emissions, because sometimes you have to work with data that is an estimation based on an industry average, rather than data from your supplier in particular."
Airmic member

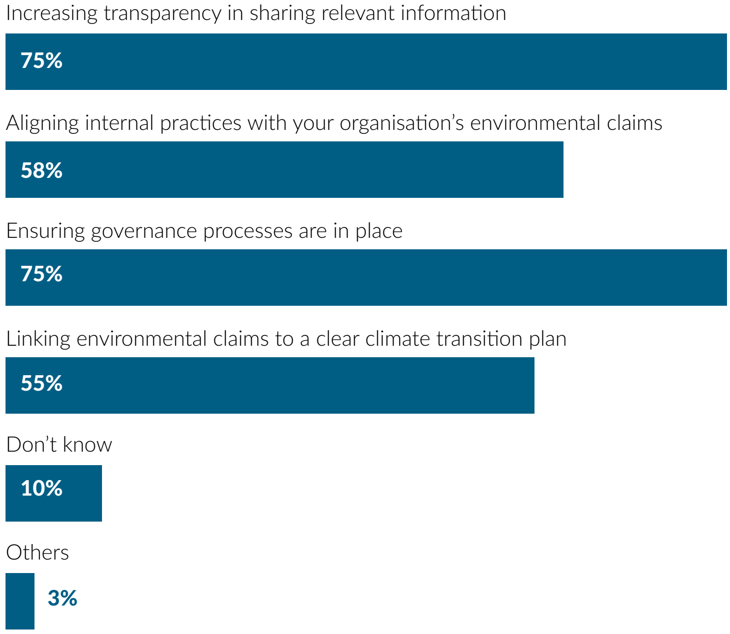
Greenwashing and 'green hushing'

Greenwashing is the use of false or misleading environmental claims that affect consumers. In early 2023, the Competition and Markets Authority of the UK said it would examine the accuracy of 'green' claims made about essential household products such as food, drinks and toiletries – to ensure consumers are not being misled. Meanwhile, the Financial Conduct Authority (FCA) is proposing a package of new measures including investment product sustainability labels and restrictions on how terms such as 'ESG', 'green' or 'sustainable' can be used.

At the other end of the scale is the phenomenon of 'green hushing', where an organisation makes a deliberate decision to keep quiet about its climate strategies. That could be the result of not wanting to be called out if it fails to meet its climate targets, or not wanting to be accused of greenwashing. There is a sense from the roundtables run by Airmic that the onslaught of climate regulations today could have the perverse effect of leading to less disclosure and more 'green hushing'.

Organisations are making the decision to be more transparent, to combat accusations of greenwashing

What steps are your organisation taking to tackle greenwashing?



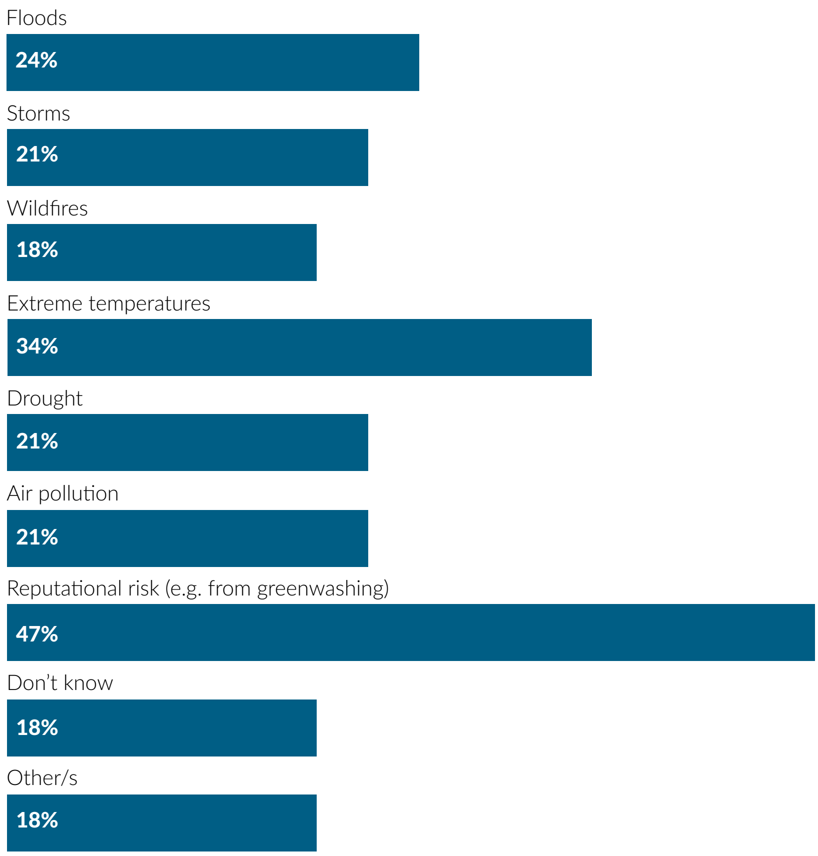
We are looking at the many information requests we receive, including requests from activists, and we are building these into our normal reporting. But we are having to decline more and more of them. To fully respond to all these requests, we would require a large team and additional systems to capture the data." – *Survey respondent*

Reputational risk tops climate insurance gaps

Concerns over reputational risks trump all other climate-related insurance gaps for organisations.

In May 2023, hundreds of students and recent graduates of top UK universities signed and sent a letter to Lloyd's of London in which they pledged a "career boycott" of major insurers, saying they will not work for those organisations if they support controversial fossil fuel projects.[7] This would exacerbate the talent crunch that the insurance industry is already facing.

What are your organisation's protection gaps in terms of insurance coverage for climate risks? (Select all that apply)



[7] https://www.theguardian.com/business/2023/may/24/uk-students-pledge-career-boycott-of-insurers-over-fossil-fuels

The rise of anti-ESG legislation

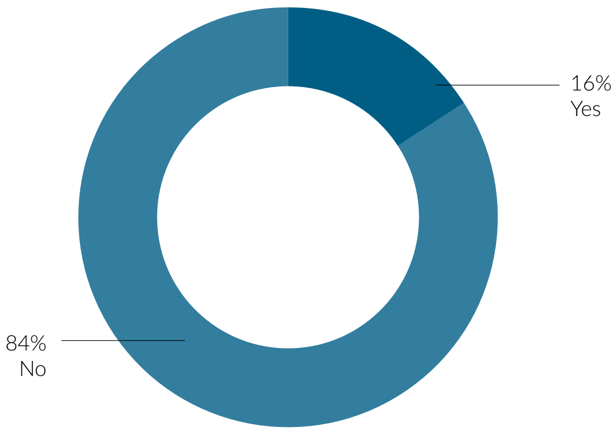
While environmental, social and governance (ESG) considerations – of which climate issues are a key part – have captured the attention of corporations, investors and regulators around the world, an 'anti-ESG' movement has emerged recently in the US. A number of states in the US have introduced draft legislation or issued policy guidance indicating that ESG investing approaches may violate fiduciary duties of prudence and loyalty that apply to state investments. In May 2023, for instance, Florida governor Ron DeSantis signed into law a bill barring state officials from investing public money to promote ESG goals and prohibiting ESG bond sales.

The rise of the anti-ESG movement has also been blamed for the withdrawal of several insurers from the Net-Zero Insurance Alliance (NZIA), after the Attorneys General of 23 US states wrote to those insurers to warn them that the grouping's targets and requirements could be in violation of federal and state anti-trust laws.[8]

At present, this is predominantly still a US phenomenon, but all businesses operating in the US potentially have an exposure to the rise in anti-ESG legislation. The organisations of some Airmic members have sustainability products in some of the US states impacted and, hence, the phenomenon presents a commercial challenge to them. Pension fund investments are among the most affected.

Avoiding political controversy is becoming more difficult as consumers and campaigners demand that organisations take a position on the key issues of the day. Yet, sometimes, risk professionals find themselves in a position where their pursuit of net zero targets is met with challenges in certain jurisdictions. It is therefore imperative for organisations to be clear about their purpose, risk appetite and strategy, while also being agile in their responses to political controversy.

Is your organisation impacted by anti-ESG legislation?



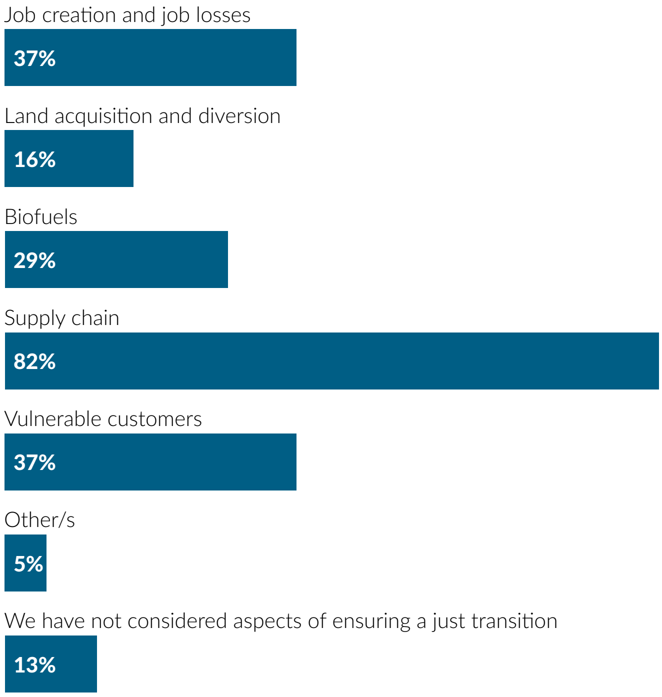
8 https://www.reuters.com/business/allianz-decides-leave-net-zero-insurance-alliance-2023-05-25/

Towards a just transition

While the pursuit of decarbonisation strategies is critical for limiting global warming to below 1.5 degrees Celsius, these could have unintended consequences in the way they disproportionately impact certain communities, regions and industries more than others. For instance, the closure of coal mines can lead to large-scale job losses and social conflicts – unless there is support to enable affected employees to transition into other livelihoods or find other job prospects.[9]

Planning for a just transition means greening the economy in a way that is fair and inclusive to everyone concerned, creating decent work opportunities and leaving no one behind.

What areas is your organisation looking at to ensure a just transition? (Select all that apply)



[9] https://kpmg.com/xx/en/home/insights/2022/11/how-to-contribute-to-a-just-energy-transition.html

Insuring the climate transition: The voice of the customer

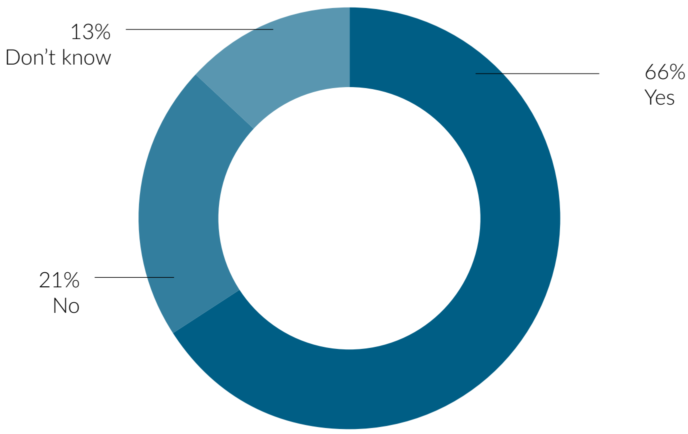
Airmic members are important insurance buyers. The estimated total annual insurance spend in 2022 for the organisations that Airmic members represent was £14.5 billion.

They hold leading positions within the risk profession, and in some of the largest businesses in the world. More than half come from organisations with a global turnover of £1 billion to £10 billion or more, while 30% are from organisations with more than 25,000 employees.

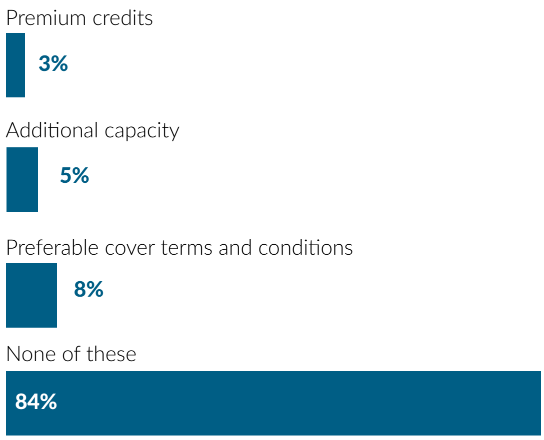
The voice of the customer is becoming more consequential in the insurance industry's climate transition. Airmic members are increasingly including reference to ESG priorities and action in their insurance renewal presentations. Where their organisation has a captive insurance company, it is likely to connect with the parent on ESG. Some of their captives have an ESG framework and they too formally assess ESG performance.

More than 40% of respondents say they consider the position of insurers and brokers on ESG issues, when considering whom they will use.

Is reference to ESG priorities and actions included in your insurance renewal presentations?

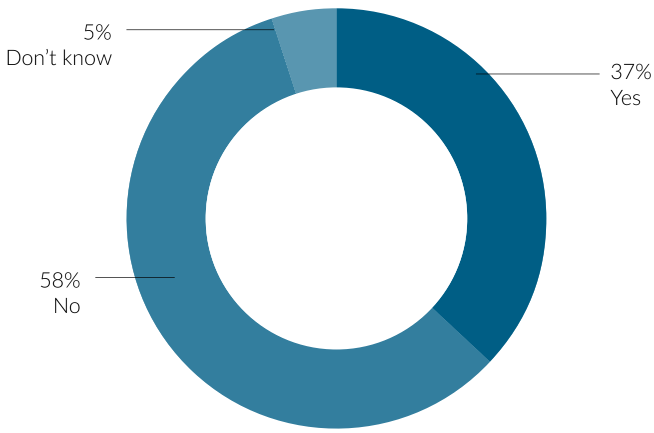


What incentives are you being offered by insurers for ESG-related insured differentiation?

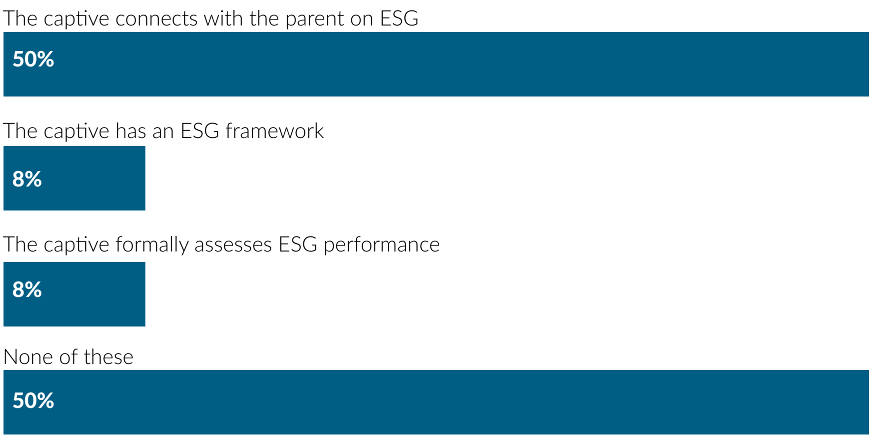


[7] https://www.theguardian.com/business/2023/may/24/uk-students-pledge-career-boycott-of-insurers-over-fossil-fuels

Do you have a captive insurance company?

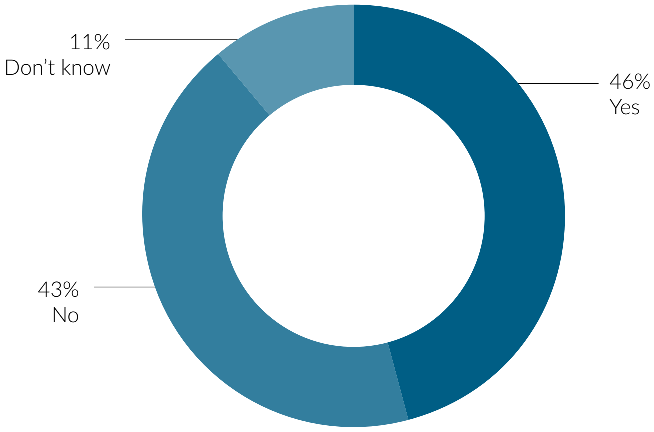


If you have a captive, which of these statements apply to you?

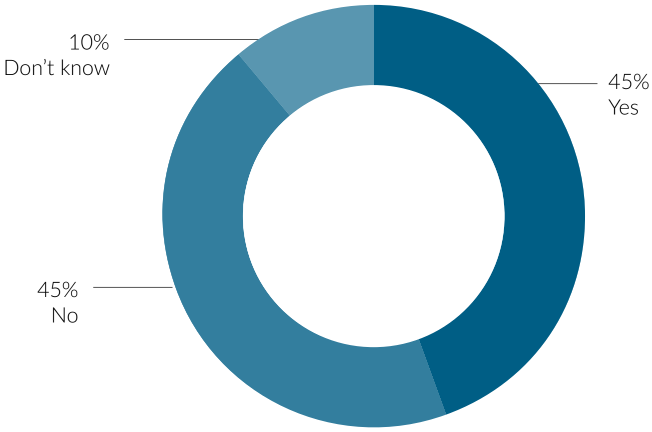


When considering whom you will use, do you consider the position on ESG issues held by your…

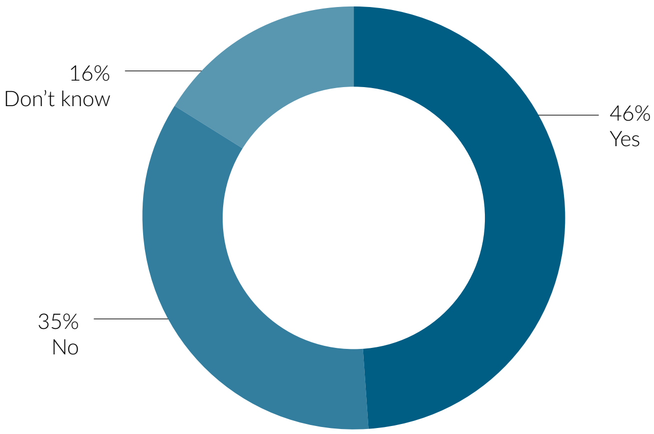
…Insurer?



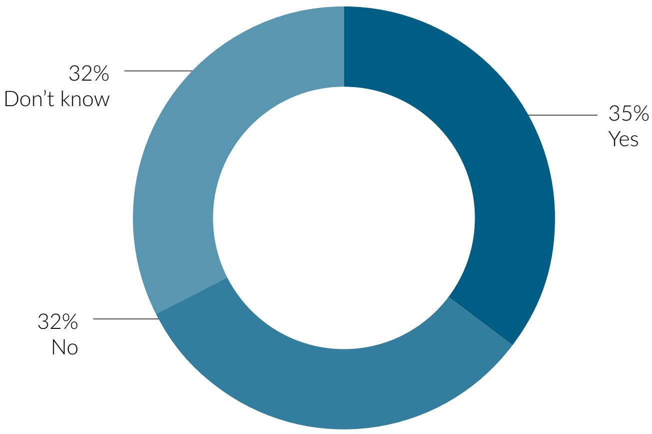
Broker?



…Consultants?



…Auditor?



Methodology

This report, produced by Airmic in collaboration with KPMG, is based on 62 responses gathered in a survey conducted from May to June 2023. A roundtable with members of the Airmic Climate Special Interest Group was held in May.

Acknowledgements

We would like to thank all Airmic members and other organisations who have contributed their insights and thoughts to this report.

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About Airmic

The leading UK association for everyone who has a responsibility for risk management and insurance for their organisation, Airmic has over 450 corporate members and more than 1,800 individual members. Individual members include company secretaries, finance directors, internal auditors, as well as risk and insurance professionals from all sectors.

Airmic supports members through training and research; sharing information; a diverse programme of events; encouraging good practice; and lobbying on subjects that directly affect our members. Above all, we provide a platform for professionals to stay in touch, to communicate with each other, and to share ideas and information.

www.airmic.com

About KPMG

KPMG in the UK is one of the largest member firms of KPMG's global network of firms providing audit, tax and advisory services. In the UK we have 631 partners and 15,864 outstanding people working together to deliver value to our clients across our 22 offices. Our vision is to be the clear choice in professional services in the UK. For our clients, for our people and for the communities in which we work. KPMG's core business is to help your organisation work smarter, evaluate risks and regulation and find efficiencies. We do this by providing deep insight into market issues, transparency in everything we do, and using innovative technology to tackle complex problems. We are focused on the issues that keep our clients awake at night and responding to them as One Firm. To do that, we strive to create a high performance culture, guided by our values, where our diverse talent feels included and excels.

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