AMY BARNES
MARSH

The Role of Insurance in Climate and Sustainability

Insurance Roundtable

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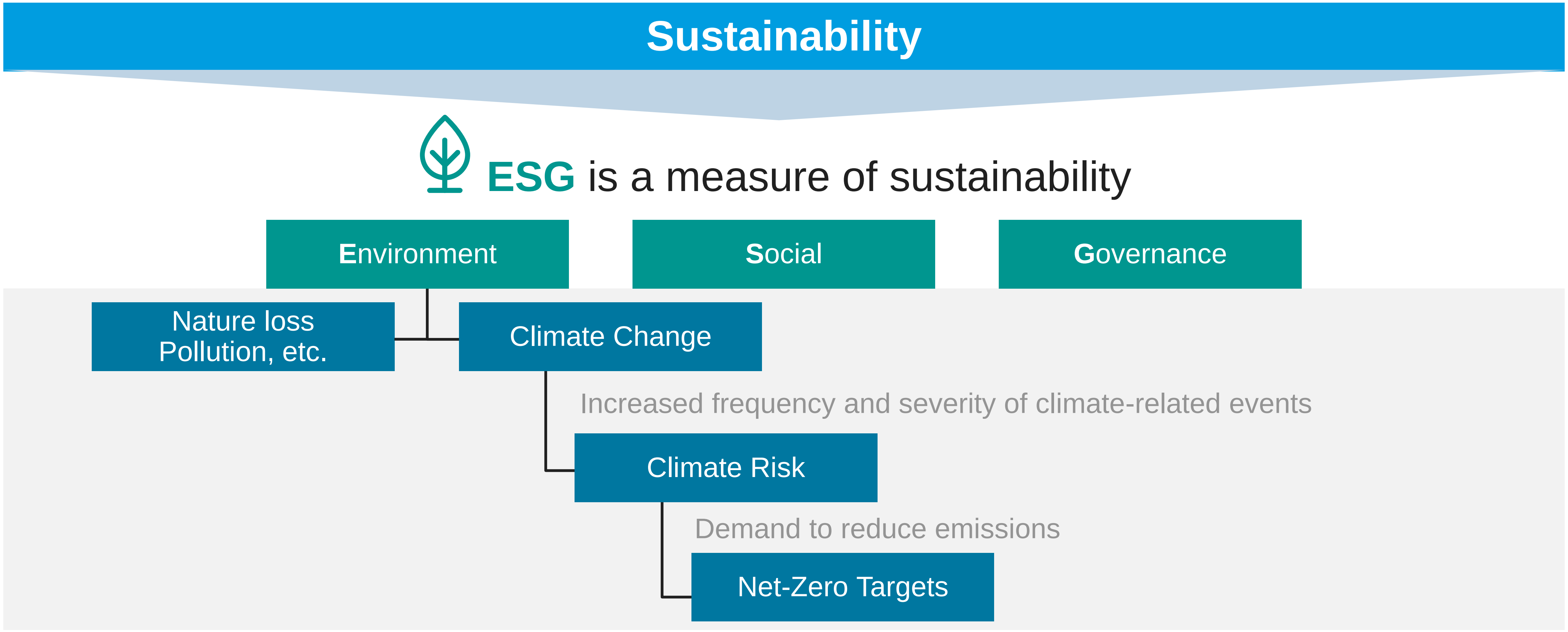
The role of insurance in climate and sustainability

29 June 2022
Amy Barnes, London

Agenda

ESG is a measure of sustainability – climate change is a component of the ‘E’ in ESG



The evolution of an ESG Strategy

	UNDERSTANDING MATERIALITY			TAKING ACTION		
	1	**2**	**3**	**4**	**5**	**6**
Activities	**SCREENING**	**MATERIALITY ASSESSMENTS**	**METRICS & MODELING**	**REPORTING**	**ADAPTATION & RESILIENCE**	**RISK TRANSFER**
	ESG Risk Rating (ERR) scorecard of your credentials against international standards & stakeholder frameworks	Formalised **ESG risk register** developed via gap-analysis exercises & expert-led workshop. Integration into ERM.	**Sizing ESG risks** & opportunities e.g. **GHG accounting, safety, D&I, investments, physical & transition climate modelling.**	Internal and external communications, including **mandatory & voluntary reporting** (e.g. SEC, TCFD, CDP)* and sustainability reports.	Support with all aspects of **adaptation plans (e.g. net zero, D&I), & embedding ESG** resilience & sustainability.	Advice & support with ESG-related **strategies, insurance policies, and new coverage** via ART.
Benefits	✓ **Highlights ESG strengths & weaknesses in your organization & your supply chain.**	✓ **Informs and educates board & stakeholders on ESG risks and opportunities.**	✓ **Measurement and analysis of key ESG issues to inform goals for improvement and/or mitigation.**	✓ **Best in .class write-up, communication, & assurance of ESG preparedness.**	✓ **Embedding ESG adaptation and resilience within “business as usual”.**	✓ **Early/informed action for current and emerging ESG insurance and investment needs.**

***TCFD:** Task Force on Climate-related Financial Disclosures
UK ETS: UK Emissions Trading Scheme
SECR: Streamlined energy and carbon reporting
TNFD: Taskforce on Nature-related Financial Disclosures
ART: Alternative risk Transfer

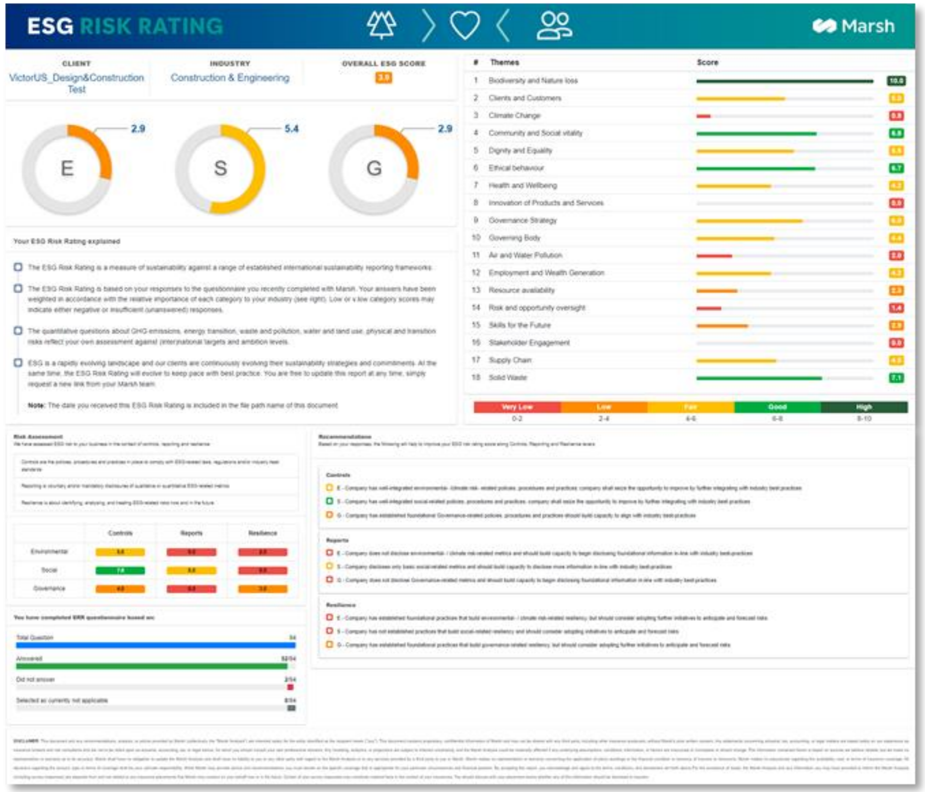
Screening: ESG Risk Rating

Marsh has developed the ESG Risk Rating, a self-assessment tool for clients

Key to know

- **Generates an intuitive** “**scorecard**” based on a set of quantitative questions across 18-core ESG themes.
- A **robust and comprehensive** question set
  - Leveraged >10 internationally-recognized standards.
  - Validated with key experts across Marsh McLennan.
- The Rating received **differentiates between more than 60 industries**, recognizing the different relative importance themes across industries.
- Companies can use their scorecard **to mobilize internally as well as share with underwriters (at their discretion).**

Output “scorecard”



Overview of the scorecard

ESG RISK RATING

Marsh

CLIENT	INDUSTRY	OVERALL ESG SCORE
Victor	:onstruction & Engineering	3.9

Your ESG Risk Rating explained

- The ESG Risk Rating is a measure of sustainability against a range of established international sustainability reporting frameworks.
- The ESG Risk Rating is based on your responses to the questionnaire you recently completed with Marsh. Your answers have been weighted in accordance with the relative importance of each category to your industry (see right). Low or v.low category scores may indicate either negative or insufficient (unanswered) responses.
- The quantitative questions about GHG emissions, energy transition, waste and pollution, water and land use, physical and transition risks reflect your own assessment against (inter)national targets and ambition levels.
- ESG is a rapidly evolving landscape and our clients are continuously evolving their sustainability strategies and commitments. At the same time, the ESG Risk Rating will evolve to keep pace with best practice. You are free to update this report at any time, simply request a new link from your Marsh team.

Note: The date you received this ESG Risk Rating is included in the file path name of this document.

#	Themes	Score
1	Biodiversity and Nature loss	10.0
2	Clients and Customers	5.0
3	Climate Change	0.8
4	Community and Social vitality	6.8
5	Dignity and Equality	5.5
6	Ethical behaviour	6.7
7	Health and Wellbeing	4.2
8	Innovation of Products and Services	0.0
9	Governance Strategy	6.0
10	Governing Body	4.4
11	Air and Water Pollution	2.0
12	Employment and Wealth Generation	4.2
13	Resource availability	2.3
14	Risk and opportunity oversight	1.4
15	Skills for the Future	2.9
16	Stakeholder Engagement	0.0
17	Supply Chain	4.5
18	Solid Waste	7.1

Very Low	Low	Fair	Good	High
0-2	2-4	4-6	6-8	8-10

Overview of the scorecard

Risk Assessment

We have assessed ESG risk to your business in the context of controls, reporting and resilience

Controls are the policies, procedures and practices in place to comply with ESG-related laws, regulations and/or industry best-standards

Reporting is voluntary and/or mandatory disclosures of qualitative or quantitative ESG-related metrics

Resilience is about identifying, analysing, and treating ESG-related risks now and in the future

	Controls	Reporting	Resilience
Environmental	5.0	0.0	2.0
Social	7.0	5.0	0.0
Governance	4.0	0.0	3.0

You have completed ERR questionnaire based on:

Total Question	160
Answered	152/160
Did not answer	4/160
Selected as currently not applicable	4/160

Recommendations

Based on your responses, the following will help to improve your ESG risk rating score along Controls, Reporting and Resilience levers

Controls

- E - Company has well-integrated environmental- /climate risk- related policies, procedures and practices; company shall seize the opportunity to improve by further integrating with industry best practices
- S - Company has well-integrated social-related policies, procedures and practices; company shall seize the opportunity to improve by further integrating with industry best practices
- G - Company has established foundational Governance-related policies, procedures and practices should build capacity to align with industry best-practices

Reports

- E - Company does not disclose environmental- / climate risk-related metrics and should build capacity to begin disclosing foundational information in-line with industry best-practices
- S - Company discloses only basic social-related metrics and should build capacity to disclose more information in-line with industry best-practices
- G - Company does not disclose Governance-related metrics and should build capacity to begin disclosing foundational information in-line with industry best-practices

Resilience

- E - Company has established foundational practices that build environmental- / climate risk-related resiliency, but should consider adopting further initiatives to anticipate and forecast risks
- S - Company has not established practices that build social-related resiliency and should consider adopting initiatives to anticipate and forecast risks
- G - Company has established foundational practices that build governance-related resiliency, but should consider adopting further initiatives to anticipate and forecast risks

Key climate questions

What is the impact of my organisation on the climate?

What is the potential impact of the climate on my organisation?

How should I think about climate liabilities?

The climate risk taxonomy

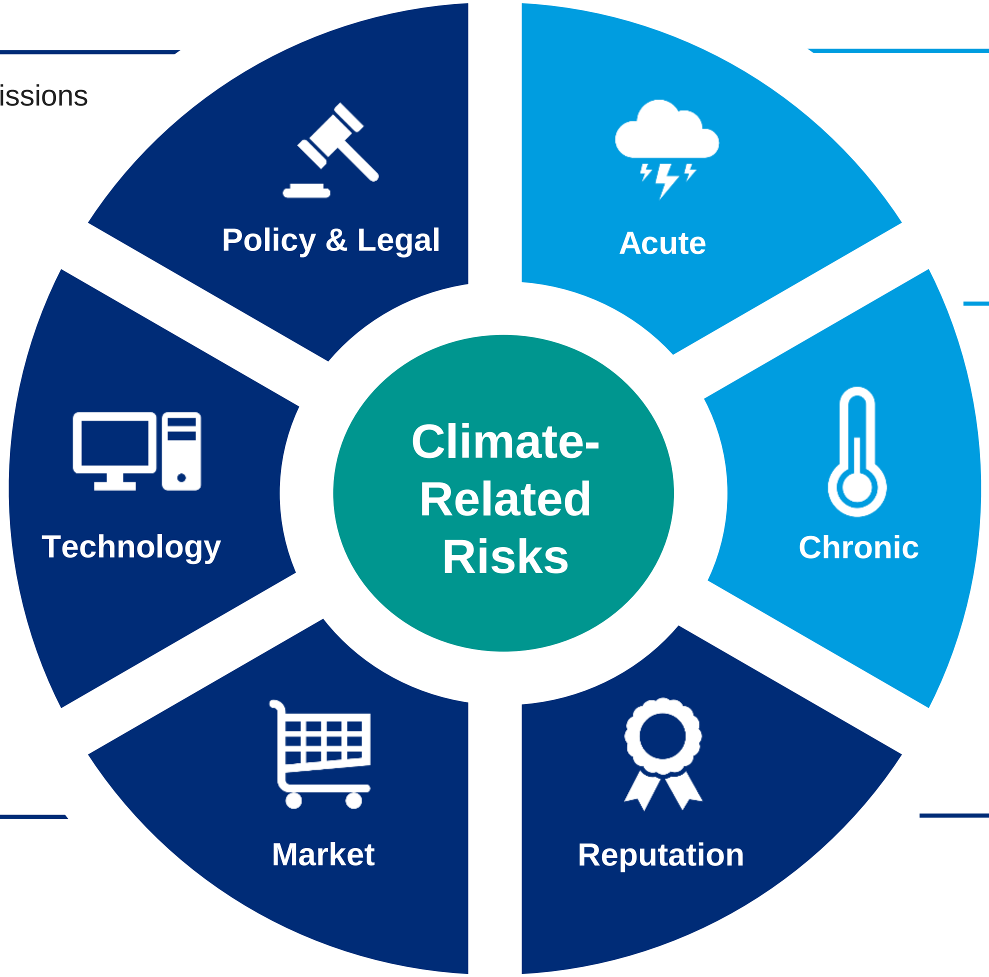
Non Exhaustive

Transition

- Regulatory changes - increased pricing of GHG emissions
- Enhanced emissions reporting obligations
- Exposure to litigation

- Failure to invest in technological innovation
- High upfront costs to transit to lower emission technology
- Competition from substitution of existing product with lower emissions options

- Changes in customer behavior
- Uncertainty in market signals
- Increased cost of raw materials



Physical

- Event-driven risks due to increased frequency and severity of extreme weather events such as floods and wildfires

- Long-term shifts such as higher average temperatures, water scarcity, sea level rise, changes in seasons

- Increased stakeholder concerns/backlash
- Sector specific perceptions

An uncertain future of physical and transition risks

The pace and timing of the transition will determine the balance of physical and transition risks

← More physical risk | More transition risk →

Pathway	Business-as-usual	Business-as-intended	Two-degree	Rapid transition
Change in temp vs. pre-industrial era (2100)	4°C	3°C	2°C	1.5°C
Cut in global net CO2 emissions by 2050	0	-40%	-70%	-100%
Corrective response	Limited	Substantial	Strong	Very strong

Organizations are at various stages on their climate journeys…

Where should I start?

How do I quantify my risk?

How do I reduce my climate impact / build resilience?

How do I report / meet regulatory needs?

Formation of working groups

Bodies seeking to coordinate the insurance industry response

UN Net-Zero Asset Owners Alliance

- Coalition of institutional investors committed to making investment portfolio carbon neutral by 2050.
- 12 of its 16 members from insurance industry.

UN Net-Zero Insurance Alliance

- 21 (re)insurers (including Lloyd's of London) committed to transitioning underwriting portfolio to net-zero GHG emissions by 2050.

ClimateWise

- Global insurance industry initiative – signatories annually report progress against six principles.
- 40 members.
- Marsh is a member.

SMI (Sustainable Markets Initiatives) Insurance Task Force

- Convened by HRH Prince of Wales and chaired by Lloyd's, platform committed to advancing world's progress to a net-zero economy.
- Marsh McLennan is a member.

Focus areas:

Green investment

Net-zero underwriting methodologies

Research and reporting on progress

Product development

What activities are insurers focusing on?

- **Both sides of the balance sheet (assets and liabilities)**

Underwriting Selection

Insurers assessing risk appetite – which clients to support and composition of their product offerings.

Two of the reasons driving this:

1. **Climate and sustainability risks expected to lead to increased lossess**
   - Increased frequency and/or severity natural catastrophes, corresponding property (business interruption losses).
   - Social issues – shareholder derivative action – potential liability claims.
2. **Net-zero underwriting**
   - To meet their net-zero commitments, insurers are developing approaches to measure their GHGs.
   - Once insurers have a way of measuring, they will inevitably start steering their portfolios to net zero.

Investment Portfolio

- Insurers are integrating ESG factors into their investment decisions.
- AM Best survey of 97 reinsurers: investment activities were primary focus of (re)insurers' ESG integration.
- Regulators requiring insurers to stress test investment portfolio for climate risk (see Appendix for country-specific regulator actions).

Net-zero underwriting

Climate-based portfolio steering covers three steps

MEASURE
How should I measure how green is my portfolio?

1. Develop a metric to assess **greenhouse gas emissions** of a single counterparty
    - Activity or target based
    - Emission (absolute)
    - Emission intensity
2. Develop an approach **that applies the metric** to the entire **portfolio.**

SET STRATEGY
How should I apply the metric to green my balance sheet?

- Develop a **balance sheet steering methodology** that pushes the metric through the business, e.g. targets or a cost.
- Provide guidelines but allow a **differentiated approach** at a sub-business level.
- **Balance of alignment** with existing processes without muddying existing risk-based measures.

APPLY
How do I embed this into business decision-making?

- **Integrate** in existing core business processes from new business origination to management/board reporting.
- Incentivize the business to **drive real change.**
- Provide **mandatory training** at all levels to understand climate metrics and steering framework.

Timeframe for implementing net-zero underwriting

- **Evolution of insurers commitments implementation**

Climate modeling:

- **Lloyd's** is currently behind the curve with embedding the PRA's requirements around **modeling climate change** loss scenarios and the impact on the book. The original deadline was end of last year. There will be increasing focus this year to catch up.

Emissions methodologies:

- **Lloyd's** is currently working on **methodologies to measure the carbon footprint of underwriting portfolios**, focusing on Scope 1 and 2 emissions. The first test of methodologies will be this year into next, but not expected to result in external publication.

- **Lloyd's** Refinement of models will be undertaken in **2023 for publication in 2024**. However, it is possible that regulation may force a faster pace. The models used for assessing carbon footprints is an emerging field, and Lloyd's wants to keep their options open on approach.

- **NZIA** – Outline proposal published, expecting further details **end of 2022**.

Insurers are wary of forcing insureds to provide detailed information that could make them **uncompetitive**, and market conditions could also have an impact.

NZIA proposal
Lloyd's methodology
NZIA Targets
Lloyd's refine
NZIA Implement
Lloyd's publish

2022
2023
2024

What is the impact on organizations?

Changes to anticipate

CAPACITY WITHDRAWALS

- **Certain segments** (e.g., oil sands, artic drilling, coal) **heavily scrutinized,** difficulty placing cover for **specific clients**
- Insurer assessments largely at **entity level** rather than the asset level
- Less cover available for risks with increasing loss profiles (e.g. wildfire)

CHANGES TO POLICY WORDING/ CONDITIONS

- Expected uptick in **exclusion language** for some sectors
- Currently, largely restricted to liability classes
- Examples: **Climate Change Exclusion**, **Modern Slavery Clause** in Marine Cargo Insurance
- Insurers may apply **higher deductibles**. Pay attention to **natural catastrophe sub-limits**.

DIFFERENTIATED SOLUTIONS FOR HIGH PERFORMING CUSTOMERS

- Insurers **incentivizing** ESG related **risk reduction approaches pre-loss.**
- Example: Marsh France **– Biodiversity risk mitigation initiative.**
- Outcomes; increased capacity, broader coverage, improved retentions, premium credits

NEW PRODUCTS

- **Insurance market innovation** to support clients on sustainability journey
- Coverage for **new technologies,** e.g. Carbon capture, utilization, and storage insurance.
- Coverage to **support changing business operations,** e.g. Late-life asset decommissioning insurance
- Building resilience **- parametric coverage to protect against climate risk**

Asset management: Sustainable Investment Services

Our team can support your sustainable investment journey from building SI beliefs to implementing investment decisions in your portfolio.

ESG + Impact

- Sustainable Investment Education
- Sustainable Investment Beliefs
- Peer Comparison Analysis
- Sustainable Investing Strategy
- ESG Ratings Review
- SDG Revenues
- Screening
- Annual ESG Assessment & Report

Climate Change

- Carbon Footprint
- Climate Scenario Risk and Stress Testing Model
- TCFD Alignment and Reporting
- Analytics for Climate Transition (ACT)
- Decarbonization and Net Zero Target Setting

Stewardship

- ESG Manager Monitoring and Stewardship
- Voting and Engagement reporting

Strategic & Manager Research

- ESG Integration by Asset Class
- Diversity, Equity, & Inclusion
- Biodiversity
- Modern Slavery & Human Rights
- Indigenous Communities

Investment Solutions

- Mercer Investments (OCIO)
- Mercer Sustainable Opportunities (Private Markets)

Q&A

A business of Marsh McLennan