



WRATHALL CONSULTING



Introduction to Sustainability

for the Insurance
Industry



Learning objectives

The target key take-aways from today's session

Following this presentation delegates will be able to understand:

1. What sustainability and climate change are and how they affect the insurance industry
2. The different roles of the insurance industry in the transition to a sustainable economy
3. Which regulations might affect their business and in what ways
4. How to guard against reputational risk in relation to sustainability endeavours



Setting the scene

Learning Objective:

Understand what sustainability and climate change are and how they affect the insurance industry





The science of climate change

Whatever you want to call it, the science is clear: human activity at a global scale cannot be sustained under BAU

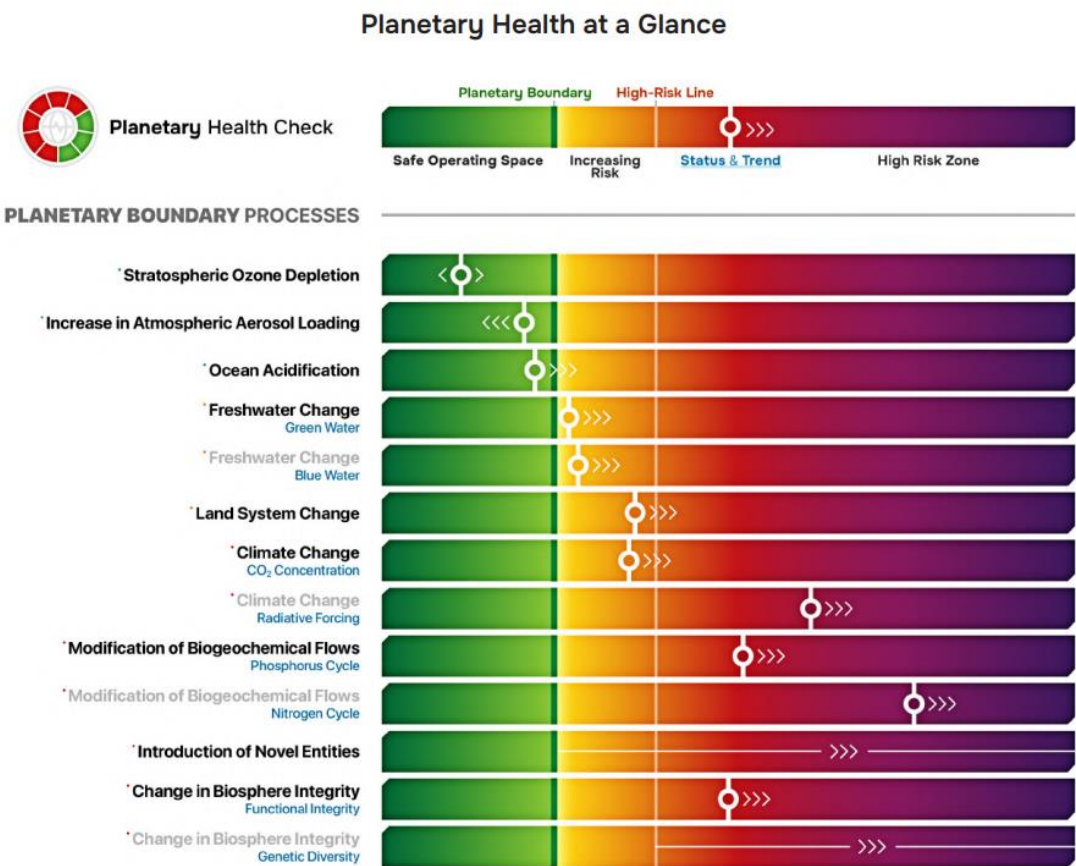


Image: Potsdam Institute for Climate Impact Research



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DIRECT IMPACTS	1.5°C	2°C	2°C IMPACTS
EXTREME HEAT Global population exposed to severe heat at least once every five years	14%	37%	2.6X WORSE
SEA-ICE-FREE ARCTIC Number of ice-free summers	AT LEAST 1 EVERY 100 YEARS	AT LEAST 1 EVERY 10 YEARS	10X WORSE
SEA LEVEL RISE Amount of sea level rise by 2100	0.40 METERS	0.46 METERS	0.06m MORE

SPECIES	1.5°C	2°C	2°C IMPACTS
SPECIES LOSS: VERTEBRATES Vertebrates that lose at least half of their range	4%	8%	2X WORSE
SPECIES LOSS: PLANTS Plants that lose at least half of their range	8%	16%	2X WORSE
SPECIES LOSS: INSECTS Insects that lose at least half of their range	6%	18%	3X WORSE

LAND	1.5°C	2°C	2°C IMPACTS
ECOSYSTEMS Amount of Earth's land area where ecosystems will shift to a new biome	7%	13%	1.86X WORSE
PERMAFROST Amount of Arctic permafrost that will thaw	4.8 MILLION KM²	6.6 MILLION KM²	38% WORSE
CROP YIELDS Reduction in maize harvests in tropics	3%	7%	2.3X WORSE

OCEANS	1.5°C	2°C	2°C IMPACTS
CORAL REEFS Further decline in coral reefs	70-90%	99%	UP TO 29% WORSE
FISHERIES Decline in marine fisheries	1.5 MILLION TONNES	3 MILLION TONNES	2X WORSE

<https://www.climatecouncil.org.au/resources/impacts-degrees-warming/>



The future of insurance

Climate change is impacting the central tenets of the industry

“We’re in the midst of an insurance crisis. The iceberg is looming. We’ve got to change course and manage our risks better.”

David Howden at the De-risking Summit



The future of insurance

Is mutualisation of risk compatible with climate-changed world?

The world we've lived in:

- Risks are episodic and geographically uncorrelated, allowing premiums from diverse policyholders to cover these episodic losses
- Reinsurance allows these risks to be further dispersed globally
- Premiums can be adjusted to recoup losses after major events

Why does climate change threaten this model?

- Events are more frequent and severe, overwhelming our actuarial assumptions of mutualisation
- Climate risks are systemic, not uncorrelated
- Models become less useful as historical data become decreasingly able to predict what will happen next
- Risk pool shrinks as insurance deserts emerge, and low-income households are priced out



A catalyst for transition

Learning Objective:

Understand the different roles of the insurance industry in the transition to a sustainable economy





Five roles for the insurance industry in cultivating a green transition

The insurance industry is well poised to take advantage of, and lead, the transition to a sustainable economy



The discerning insurer

Raising premiums or removing insurance policies for activities which contribute to climate and biodiversity decline



The data hub

Investing in data collection and data sharing to enable informed decision-making to promote the transition



The innovator

Creating new cover and making it easier for green businesses, behaviours and technologies to thrive



The investor

Targeting instruments and companies who score highly on ESG and/or contribute to green transition



The incentive provider

Developing innovative mechanisms for encouraging green behaviours e.g. ratcheting premiums based on performance against KPIs



A changing landscape

Learning Objective:

Understand which regulations might affect your business and in what ways





The sixth role of the insurance industry

As with all industries now, the insurance industry must also look at the impact of its own operations



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The self-aware

Addressing the impact of own operations from offices and ways of working to engaging with suppliers and partners



The self-aware

Each organisations must also consider its own impact on the world

Address scopes 1 and 2

Depending on the operational footprint of your firm, scopes 1 and 2 might be negligible compared to the impact of your value chain. Nevertheless, addressing the impact of your utilities providers, business fleet, and any other direct emissions may provide some quick wins.

During 2023, Aviva confirmed that 100% of their 2022 electricity used by operations was from certified renewable sources

Gallagher has set a goal of net zero carbon emissions in our direct operations (Scope 1 and Scope 2) by 2050.

Engage suppliers and partners

Your impact extends beyond the borders of your own organisational footprint through your contact with suppliers, partners, and customers. This is often the most significant part of a firm's impact on the world and engagement with these stakeholders is essential to drive change.

Aviva hosted a supplier summit attended by over 100 supply chain partners to to provide opportunities for education and collaboration.

RSA Insurance Group works with suppliers to carry out over 40,000 windscreen chip repairs a year, avoiding 1,500 tonnes of carbon emissions and 540 tonnes of waste glass going to landfill.





Regulation

There are several key standards and pieces of legislation globally of which the industry must be aware

The regulatory landscape is still fractured globally but more and more regulations are coming in place, starting with the larger firms and slowly bringing smaller firms into scope. These may require reporting and/or action in order to be compliant. At this stage, for small firms, most reporting is still voluntary.

UK	EU	Global
FCA Sustainable Disclosure Requirements (SDR)	EU Sustainable Finance Disclosure Regulation	UNEP Finance Initiative
Task Force on Climate-related Financial Disclosure (TCFD)	EU Taxonomy	
Prudential Regulation Authority Supervisory Statement 3/19	Solvency II	



Walking the walk

Learning Objective:

Understand how to guard against reputational risk in relation to sustainability endeavours





Risk and reputation

Some firms prefer to do nothing over the risk of being seen to greenwash, but this is not the answer either

ACT

1 Follow the regulations where appropriate

2 Make sustainability core to your strategy and operations

3 Collaborate for impact and share best practice

4 Tell an authentic story with the highs and the lows



Going deeper

Further sessions or pieces of work that will add value to your sustainability journey

Further webinars



The EU regulatory landscape



Climate analytics for the insurance industry



GHG reporting: deep dive



Nature and the insurance industry

Work packages



Help with emissions data reporting



Develop your sustainability strategy



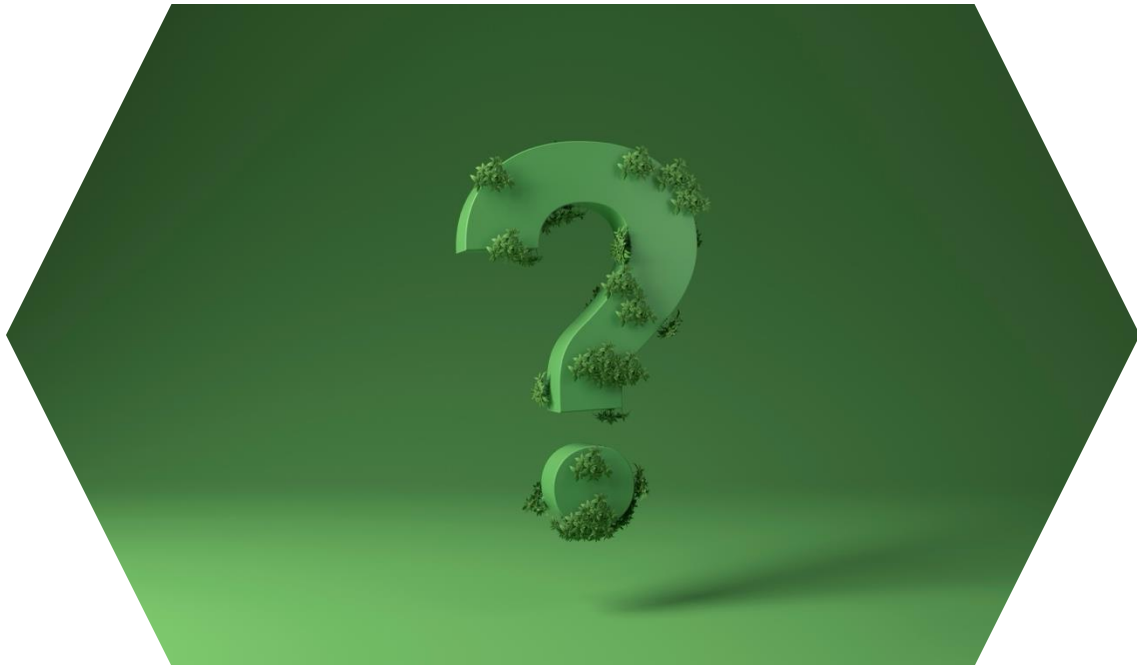
Review your nature risks and impacts



Help set up your sustainability governance



Q&A



Get in touch!

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