

Opportunities for the insurance sector's green transition

December 2024

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The European energy landscape is undergoing a profound transformation, driven by the growing urgency to mitigate the effects of climate change and the need to ensure a more sustainable and secure energy supply.

Foreword

The energy transition, with its goal of decarbonising the economy and reducing dependence on fossil fuels, is redefining market dynamics and energy policies across the continent.

The European Union has taken a leadership role in the fight against climate change by adopting a series of ambitious policies and regulations. The European Green Deal is the strategic roadmap to achieve climate neutrality by 2050, through a series of initiatives involving all economic sectors. The main measures taken include:

- **Binding emission reduction targets:** The European Union has committed to reducing greenhouse gas (GHG) emissions by 55% by 2030 compared to 1990 levels.
- **Support for renewable energy:** Substantial funds have been earmarked to promote the development of renewable energy sources, such as wind and solar power.
- **Energy efficiency:** The European Union has introduced stringent regulations to improve the energy efficiency of buildings and industrial systems. In this context, the Energy Efficiency Directive (EED) and the Energy Performance Building Directive (EPBD) are the two key directives for the energy transition. The EED sets binding targets for improving energy efficiency in various sectors, from construction to industry. On the other hand, the EPBD defines minimum



energy performance standards (MEPS) for both new and existing buildings.

- **EU taxonomy:** A classification of environmentally sustainable economic activities has been drawn up in order to direct investments towards projects with a low environmental impact.

The energy transition is generating new business opportunities and completely transforming consumption and production patterns. Companies are investing in innovative technologies and environmentally friendly solutions, while consumers are increasingly sensitive to sustainability issues.

The insurance industry has a central role to play in the energy transition. On the one hand, insurance companies are exposed to the physical and

transition risks associated with climate change, such as extreme weather events and economic losses resulting from decarbonisation.

On the other hand, the insurance industry can actively contribute to the energy transition by offering innovative products and services that support the deployment of green technologies and the mitigation of climate risks.

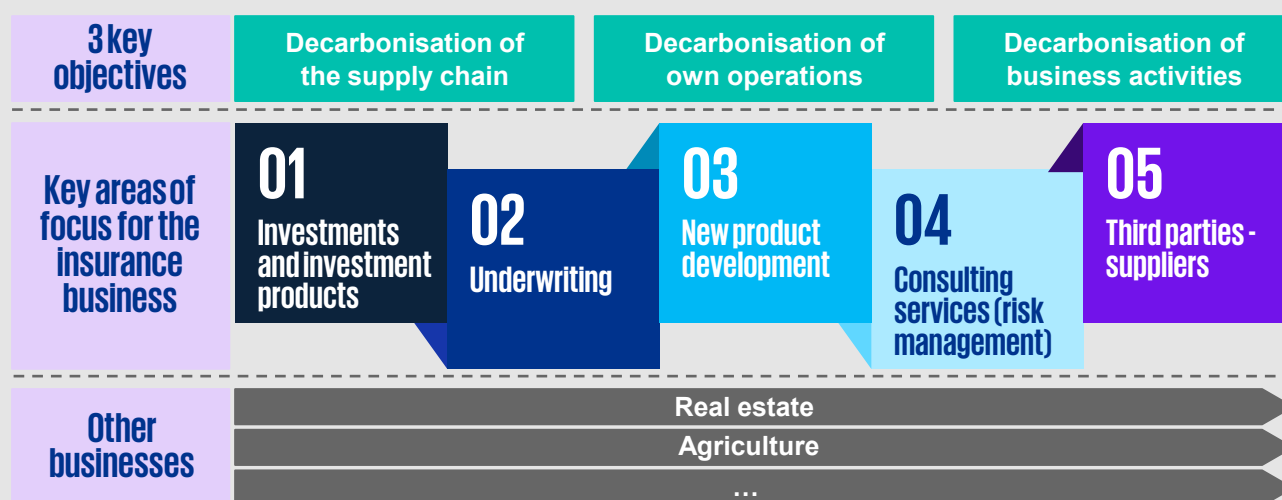
Evolution of insurance services and products

The insurance industry's transition takes the form of defining actions that affect both the overall business as well as insurance and investment activities and relationships with third parties (e.g., suppliers).

with investment/hedging companies and the development of products that can finance the green transition. This makes it possible to direct capital flows in the economic system in line with the objectives of the Paris Agreement signed by the European Union.

Investment strategies (mainly related to insurance-based investment products - IBIPs) include both thematic investing criteria to promote the more virtuous economic activities, and criteria for selecting companies with transition plans in line with their sector's decarbonisation paths, together with the exclusion of critical sectors or escalation/monitoring for the more sensitive sectors. The Sustainable Finance Disclosure Regulation (SFDR) currently provides for a specific category for

Figure 1: decarbonisation areas for the insurance sector



The Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CS3D) require insurance companies, like all other companies, to define a transition plan that involves measuring emissions and setting targets for reducing own emissions.

However, the insurance industry's GHG emissions mainly derive from insurance and investment activities⁽¹⁾, so it is crucial for the industry to work on developing products and strategies that can reduce emissions. The development of industry alliances (e.g., Net Zero Asset Owner Alliance - NZAOA) and other institutional forums (e.g., Forum for Insurance Transition - FIT) are promoting the setting of emissions reduction targets, engagement with

products targeting sustainable investments (i.e., products under article 9 of the SFDR, which includes taxonomy environmentally sustainable investments). The reporting by companies of the taxonomy KPI related to investments promotes these types of products. Additionally, the European Supervisory Authorities' opinion on the improvement of the SFDR focuses on transition opportunities and envisages a dedicated "transition" category for products that invest in economic activities that are not yet sustainable, but which aim to become environmentally sustainable over time. The investment strategies of these products are based not only on appropriate exclusions and mitigation

(1) Scope 3 can represent over 90% of a company's scope 1, 2 and 3 emissions. Scope 3 includes many of companies' most significant impacts, such as emissions in the supply chain from producing the materials a company purchases and the emissions from the products the company makes and sells" Source: [GHG Protocol Scope 3 FAQ](#), June 2022. In addition, this information is also taken up by industry players (e.g., Allianz Global Investors home page "Scope 3 emissions account for over 70% of the average company's total emissions." This highlights why, in our view, addressing Scope 3 is key to reaching net zero by 2050,³ thus limiting global warming to 1.5°C. Furthermore, we believe that addressing Scope 3 emissions will help individual companies better mitigate the risks and seize the opportunities of the climate transition").

(2) The Agreement aims to contain global warming to within 1.5°C by the end of the century. To achieve this goal, the signatories commit to reducing emissions by 55% by 2030 and to zero by 2050.

of specific adverse impact indicators (i.e., PAI - principal adverse impact), but also on a mix of indicators from the EU taxonomy to reflect the progressive improvement of their environmental performance, transition plans of the underlying assets and decarbonisation pathways.

Underwriting policies in the non-life sector are beginning to include exclusion criteria for companies operating in critical sectors, in line with the approach taken for investments. However and with a view to ensuring a fair transition, they do not totally exclude such counterparties but limit the underwriting of policies to risks that are not strictly business-related (e.g. occupational injuries, cyber risk). The non-life product offering is gradually evolving to include new products that support decarbonisation. For example:

- products with discounts to promote the insurance of risks related to environmentally-friendly means of transportation;
- vehicle green boxes to monitor virtuous (and less risky) behaviour in reducing emissions by motorists by providing related incentives;
- products to insure energy efficiency measures in buildings;
- products to insure risks related to renewable energy production.

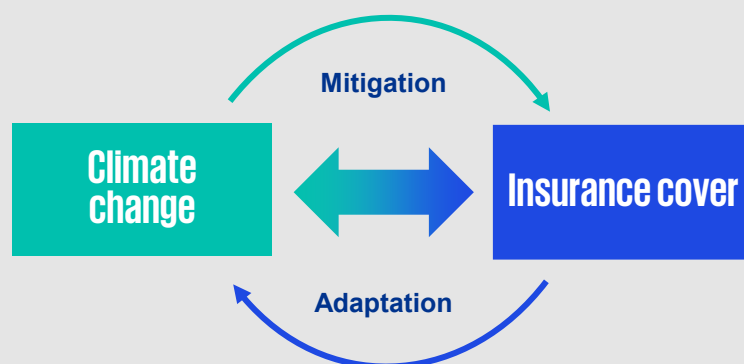
GHG emissions are the main culprits of climate change and, therefore, decarbonisation in insurance (i.e., climate change mitigation through emission reductions) goes hand in hand with the insurer's role in responding to the need to protect individuals and businesses operating in the economic system from climate risks (i.e., climate change adaptation).

A recent survey conducted by ANIA⁽³⁾ reveals the inadequate protection of the economic system in Italy: only 6% of homes are covered against earthquake and flood risks and only 5% of businesses have a policy for the same risks. The

recent budget law⁽⁴⁾ provides for mandatory catastrophic insurance for businesses, and solutions are being explored to provide coverage for individuals as well. At national level, work is underway to create a voluntary pool of insurance companies for the mutualisation of these risks and to reduce policy costs for insured businesses as well as capital costs for insurers.

The context is conducive to the development of **new products** by insurers (e.g., parametric policies, ancillary guarantees that help restart a business while waiting for the settlement of the claim related to the damage incurred, artificial intelligence-related services that support disaster prediction and accelerate the support to the policyholder and the management of the claim, etc.). The insurance industry plays an important role not only in providing risk cover, but also in encouraging the policyholder's greater resilience (e.g., by taking preventive measures, promoting the "build back better" principle) by offering incentives. The EU taxonomy requires companies to report an indicator that measures the share of premiums covering climate risks aligned to the taxonomy's rules compared to total non-life premiums. The rules for alignment with the taxonomy include requirements regarding the adoption of preventive measures by policyholders and the related incentives given by the insurer (e.g., reduction in premiums or deductibles). Policyholders should ensure that these preventive measures are based on low-emission solutions.

Figure 2: Interconnections between mitigation and adaptation objectives for insurance companies



(3) Data presented by ANIA at the [Insurance high-level conference](#) on 20 September 2024.

(4) The reference is to article 1.101-112 of Law no. 213 of 30 December 2023 which introduces the obligation for businesses to take out insurance policies to cover damage caused by catastrophic events, such as earthquakes and floods, by 31 December 2024.

Insurers play an important role in raising awareness about climate risks among individuals and businesses both by collaborating with trade associations and institutions (e.g., universities) and by raising awareness with end users of the benefits of coverage versus the potential risk. In this respect, training initiatives for the distribution network, the main point of contact with customers, are fundamental.

In addition, insurers, who are among the market players that have historically developed risk management skills, can complement their traditional insurance product offerings with **advisory services for their customers**. For example, some insurance companies are developing advisory services for weather and climate risks to be integrated into the insurance product offering for both individuals (e.g., car insurance policies, home policies) and businesses (e.g., agricultural risk policies). These services can also be supported by the development of tools that facilitate risk assessment and the recommendation of preventive actions, including directly by the distribution channels (e.g., especially the agency channel). Moreover, insurance consultancy services could also extend to offering support with the decarbonisation of corporate customers, possibly benefiting from partnerships with third parties.

Finally, even in their **relationships with third parties** (such as general suppliers or suppliers supporting claims processes such as car body shops, medical clinics, etc.), insurers can significantly promote decarbonisation by selecting the most emissions-friendly counterparties and promoting the adoption of codes of conduct that align the supplier's strategy with their emissions reduction goal. Continuous dialogue with suppliers and training sessions accelerate the value chain transition. More ambitious insurers can also set targets for supply chain emissions.

Development of a group's non-insurance businesses

Insurance groups often have subsidiaries that operate in very diverse sectors. These sectors range from financial (e.g., banking and asset management) to real estate activities (very frequent), but also extend to the agricultural, hotel or settlement process activities (e.g., clinics).

The connection between **financial activities**, e.g. banking - insurance, is obvious and can lead to the development of joint decarbonisation projects within

the groups. For example, areas of collaboration could be risk management (e.g., sharing of methodologies and models, etc.), investment policies and underwriting and credit policies (e.g., sharing of rules and ratings of the counterparties being financed/insured). Targets are often defined at group level. There are also plans to offer green financing products combined with insurance policies to cover climate risks.

The **agricultural** sector accounts for 10% of Europe's GHG emissions⁽⁵⁾. However, in its pursuit of climate neutrality, the agricultural sector is also a valuable source of carbon absorption when cultivation practices that encourage it (e.g., agroforestry, presence of peat bogs, etc.) are adopted. In the future, the European Commission's new initiative (the Carbon Farming Initiative) may become a source of income for agriculture (and, consequently, for insurance groups operating in this field) because carbon removal certificates will be placed on the market and purchased by other companies to offset their GHG emissions.

Initiatives for more sustainable development are growing at a fast pace in the **real estate sector**. In addition to building certifications (e.g., BREEAM, LEED and WELL), there are initiatives to assess the sustainability profile of the real estate investor or manager (e.g., GRESB) once a year. Emissions are certainly one of the most relevant assessment drivers. Although market valuations do not yet seem to fully price in sustainability aspects, a good sustainability profile of the real estate asset should also translate into better financial performance in the long run. If the building is also an accommodation facility for tourism (e.g., a hotel), its sustainability profile should also gradually be appreciated by customers who are increasingly aware of the importance of sustainable consumption.

(5) The figure is taken from the Sixth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC), which states that GHG emissions from human activities are responsible for about 1.1°C of the global warming since the beginning of the 20th century. 10.55% of emissions come from agriculture.

(6) The Carbon Removals and Carbon Farming (CRCF) Regulation was adopted by the European Parliament on 10 April 2024 and further steps for its implementation are now awaited.

It is important to pay attention to all components of a group in order to design an effective decarbonisation strategy and to assess whether synergies between different businesses are also possible. For example, buildings in a group's real estate portfolio could be studied to define energy-efficient strategies or to test preventive measures for climate events. The most successful solutions could then be proposed to customers, possibly promoting them with discounts/other benefits.

Energy transition and business model evolution opportunities

The energy transition is profoundly redefining the economic and social landscape, creating new opportunities and challenges for all sectors, including the insurance sector. In addition to developing new insurance products and services, insurance companies can further enhance their role in the energy transition by diversifying their business model into the energy efficiency market either through commercial partnerships with industry players (ESCo, EPC) or through organic and inorganic growth.

Why energy efficiency?

It represents a potential market that is highly synergetic with the insurance one, characterised by a strong regulatory and legislative push towards the energy transition. European and national regulations, such as the Fit for 55 package and the Repower EU plan, spotlight energy efficiency and distributed generation, promoting self-consumption. These legislative initiatives create a favourable environment for insurance companies to integrate these issues into their offerings.

In addition, the financial market is showing increasing interest in energy efficiency investments. In 2023, investment in this sector in Italy is estimated to have reached €85-€95 billion, of which around €55 billion relates to the residential sector, thanks to incentives such as the super bonus scheme. At potential market level, the impact of the Energy Performance of Buildings Directive (EPBD) is estimated to be around €100 billion for class G buildings and up to €170 billion if it is extended to buildings with higher energy classes. This scenario offers insurance companies the opportunity to become key players in financing and promoting energy efficiency projects.

The benefits of diversification towards energy efficiency

The expansion of the business model towards energy efficiency offers insurance companies numerous advantages:

- **Portfolio diversification:** Energy efficiency is a new line of business that can diversify revenue sources and reduce dependence on traditional insurance lines.
- **Creation of new revenue streams:** The sale of energy efficiency services, such as consulting, design and implementation of projects, can generate new sources of revenue.
- **Creation of added value for customers:** By offering energy efficiency services, insurance companies can help their customers reduce energy costs, improve living comfort and increase the value of their properties.
- **Synergies with the insurance and financial product offerings:** Energy efficiency services can be integrated with existing insurance products, creating comprehensive packages that meet customers' needs.
- **Customer loyalty:** By offering innovative and value-added services, insurance companies can strengthen the relationship with their customers and boost customer loyalty.
- **Portfolio risk mitigation:** Implementing energy efficiency activities can help mitigate the risk of losses from extreme weather events or other climate change-related risk factors.
- **Safeguarding the value of real estate:** Energy efficiency measures on buildings owned by insurance companies can increase their value and improve their ESG positioning.

Conclusions

The green transition represents a crucial change in the European economic and social landscape, with significant implications for the insurance industry. The policies and regulations adopted by the European Union set ambitious targets for reducing emissions and promoting renewable energy. These initiatives not only aim at ensuring a more sustainable energy supply, but also create a favourable environment for innovation and diversification in the insurance sector.

Insurance companies have the opportunity both to work on their own business activities by defining policies and processes that promote decarbonisation at various levels (e.g., risk-taking, settlement, investment, etc.) and on the development of products that can promote green solutions or that can foster greater resilience to climate change. Moreover, the increasing focus on sustainability by consumers and investors offers insurance companies the opportunity to become leaders in green project financing. Regulations such as the Energy Performance of Buildings Directive (EPBD) and the Sustainable Finance Disclosure Regulation (SFDR) incentivise companies to develop innovative products that facilitate the transition to a low-carbon economy. The integration of their offering with such products allows insurance companies to diversify their portfolios, generate new revenue streams and create added value for customers. This approach not

only improves their competitiveness, but also contributes to the economic system's greater resilience. The activities of related businesses (e.g., real estate, hotels and agriculture) can also contribute with their own energy transition projects as part of an overall group sustainability strategy.

However, it is crucial that insurance companies adopt effective change management strategies in order to fully lever these opportunities. This includes clear communication of corporate strategy and training for staff to integrate sustainable practices into daily operations.

To sum up, the green transition offers the insurance industry a unique opportunity to evolve and actively contribute to a sustainable future. Investing in energy efficiency and decarbonisation projects and developing innovative products is not only a social responsibility, but also a smart business strategy that can lead to significant economic returns and greater long-term stability. With a proactive and collaborative approach, the insurance industry can become a key player in promoting sustainability and managing climate risks, thus contributing in a tangible way to the transformation journey that has been set in motion.

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