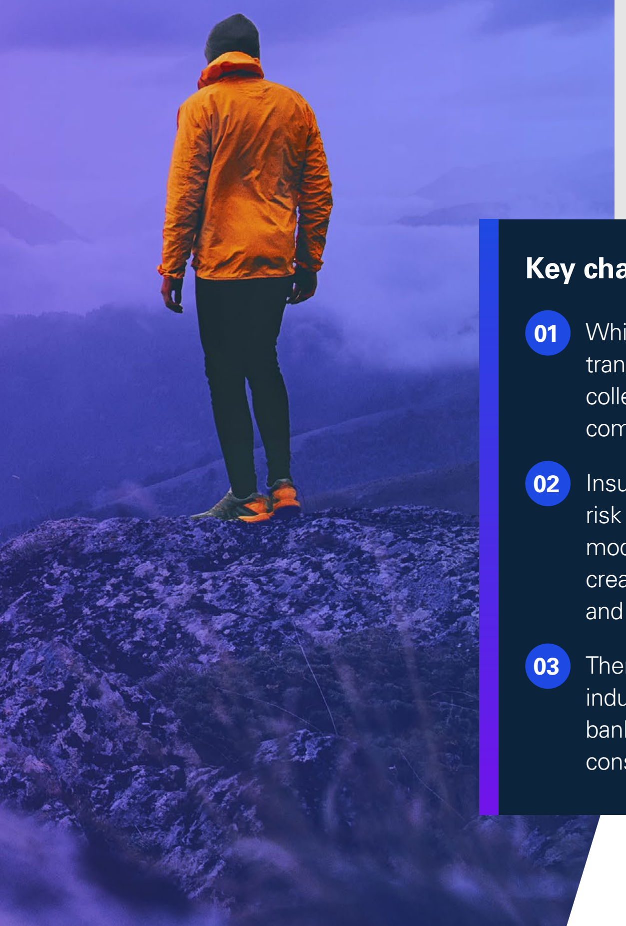
Transition Plans: Insurance

Sector-specific steps for transition planning



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2024 | kpmg.com/uk

Insurance companies play a unique role in both mitigation and adaptation challenges regarding climate change and the broader transition to Net Zero.

Many insurers are already experiencing the effects of climate change as severe weather events and chronic environmental changes such as pollution and temperature rises increase the number of claims across many lines of business. In addition, they are expected to play a key role in the transition to Net Zero through their role as investment managers while also facing increasing scrutiny from regulators and governments. Credible transition plans for insurance companies need to show how you can best leverage your involvement across the economy to drive real changes for your customers and investments.

Key challenges to consider

01 While transition risks are front-of-mind for most parts of the economy in their transition plan development process, emergent physical risks and the ability to collect data and monitor them over time, is a key challenge for insurance companies looking to continue underwriting in an uncertain climate.

02 Insurance providers transitioning to Net Zero will need to consider their evolving risk appetite across different parts of their business and challenge traditional models which may have formed the foundation of current operations. This can create disruption in operating models and place a high importance on data quality and availability.

03 There is likely to be increasing regulations and policies surrounding the insurance industry and its involvement in transitioning to Net Zero in a similar manner to banks and other financial institutions. A robust transition plan therefore needs to consider how to future-proof best against potential regulatory introductions.

Further considerations for your transition planning steps

Step 1 Diagnose

- Utilise insurance-specific guidance from TCFD and PCAF to identify risks and measure insurance-associated emissions, as well as transition plan guidance from TPT, GFANZ, ESRS E1 and IFRS (ISSB S1 and S2).
- Consider the ESG and climate-related data you need to collect from your customers and investments not only to be able to develop a robust baseline, but also to underwrite risks appropriately into your insurance premiums going forwards. Consider also the impact on reinsurance counterparties when assessing risks to your business.
- Understand how to delineate and calculate your financed and your insured emissions baseline most efficiently across your business, and the attribution factors you apply to different contracts. Refer to KPMG's existing guidance here.

Step 2 Strategise

- When setting time horizons for your strategy, consider the interplay with your products and policies. For example, General Insurance providers that primarily write annual policies may need to consider how to align short-term business strategies with longer term climate goals.
- Use a range of scenarios to enhance understanding of the specific regional physical risks that may impact your portfolios and provide more detailed insights to support strategic decisions. This can highlight tipping points for geographies or assets which may become too costly to insure under different climate scenarios.
- Consider how climate risk and decarbonisation considerations can be fully integrated into pricing and risk appetite frameworks, as well as how customer engagement could encourage adaptation and climate resilience of insured assets.

Step 3 Transform

- The design and implementation of an internal carbon price to drive decision-making will be different for insurance companies than other parts of the economy and needs to consider how it impacts insurance premiums and underwriting risk on assets.
- There is likely a need to enhance your organisational capacity for physical risk scenario analysis in response to climate uncertainty as well as ensure that scenarios are consistently applied across the different divisions of your business and fed into strategic decision-making processes.
- Sectoral experts within your business will be critical for driving business strategy as they will have a deeper understanding regarding the underwriting and investment risk of different asset classes and how these are likely to be changing over time in response to the global economic transition.

Step 4 Report

- Establish robust governance and controls for obtaining timely and accurate data across the organisation and from third parties across your underwriting, claims, and investments in order to best inform your progress on decarbonisation and flag any emergent risks to your business.
- Insured or underwritten emissions are often opaque and a topic not well understood by general stakeholders or public, meaning that it is important to develop an external narrative and communication strategy which effectively demonstrates your actions to drive a Net Zero transition in a clear and simple way.
- Integrate your reporting processes with other established disclosure frameworks, such as Solvency II which can be leveraged for measuring and mitigating climate-related risks and their impact on insolvency.

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Integration with the Transition Plan Taskforce

KPMG's four-step approach to transition planning, outlined in full in our talkbook *Transition Plans: Moving Beyond Disclosure*, is based off leading guidance from the Transition Plan Taskforce (TPT) and is designed to feed directly into developing a TPT-compliant strategy. This includes the Final Disclosure Framework which was released by the TPT in October 2023.

Our approach is designed to provide key insights and lay out actions which companies can take when preparing to disclose in line with the TPT framework, as well as line up with the TPT Transition Planning Cycle. Our sector-specific insights and challenges are also intended to fit alongside the TPT's Sector Guidance launched in November 2023, providing companies in those sectors with KPMG's views on particular focus areas as you prepare your transition plan in line with the new guidance.

For more information, get in contact with the team at KPMG and learn more about how we can help you develop a transition plan and prepare your business for success in a changing climate.

TPT transition planning cycle

- **01** Re-assess
- **02** Set your ambition
- **03** Plan your actions
- **04** Implement your plan

KPMG's approach

Step 1 – Diagnose
We work with you to baseline your current climate and sustainability position, risks and opportunities to understand the size of the challenge

Step 2 – Strategise
We help define and set your decarbonisation ambition and develop a strategy and set of levers and scenarios to achieve it

Step 3 – Transform
We design and implement the right operating models, governance processes, and valuation frameworks to execute and track your transition

Step 4 – Report
We support you in working across your organisation to get the right data to feed into your reporting strategy and public transition plan as well as getting your message out to the market

TPT disclosure framework

Ambition
1. Foundations

Action
2. Implementation strategy
3. Engagement strategy

Accountability
4. Metrics and targets
5. Governance

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