Insurers' climate-related disclosures

Benchmarking climate-related disclosures that are part of insurers' 2022 annual reports

June 2023

Purpose of this report

Sustainability reporting, including climate-related disclosures, is high on the agenda as it rapidly evolves and formalises. The first two IFRS® Sustainability Disclosure Standards will be finalised in June 2023, and there are also major developments in specific jurisdictions like the EU and the US.

The International Sustainability Standards Board (ISSB) is taking a 'climate-first' approach, as is the US Securities and Exchange Commission (SEC). Therefore, we focus our analysis on climate-related disclosures made by 35 major insurers around the world.

This report summarises the results from our analysis of 35 insurers' climate-related disclosures that are part of their 2022 annual reports.

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Executive summary

Insurers need to step up to meet new reporting challenges

Those insurers reporting their climate-related disclosures under heightened regulation are pushing ahead, but there still remains a lot to do, even for those making progress. This includes providing more detailed disclosures in key areas such as their plans to achieve their net-zero targets and publishing in line with financial reporting timeframes. Insurers also need to do more to monitor their performance against their climate-related strategy, understand the financial impact of climate-related matters and embrace the data challenges this brings.

Financial reporting

Location and timing of insurers' climate-related disclosures make it challenging to understand the big picture – these are often provided in multiple documents, published on different dates.

40 percent of the insurers we reviewed refer to 'climate' in their financial statements. Many of these insurers acknowledge the risks to their business. However, the impact of these risks on the financial statements is often unclear.

Improving connectivity to the large amounts of information included in the front part of the annual report and other documents remains key.

Auditors' reports

Climate features more prominently in some auditors' reports. However, climate-related risks are not currently considered a key audit matter.

Assurance

57 percent of insurers are obtaining assurance (albeit mostly limited) over selected climate-related information included in the annual report.

Governance

Insurers have made progress on their governance disclosures. However, assessing how they monitor performance and the impacts on total remuneration remains challenging.

Risk management

Many insurers recognise the impact climate-related risks have on other risks and have integrated them into their existing risk management framework. Underwriting risk is the main focus for many of the insurers.

Data: strategy, metrics and targets

Many insurers disclose net-zero goals by or before 2050. However, progress is unclear and climate-related scenario analysis remains limited.

Data quality is a key area of concern for a number of insurers – e.g. reliance on third-party data/models and significant use of judgements and estimates.

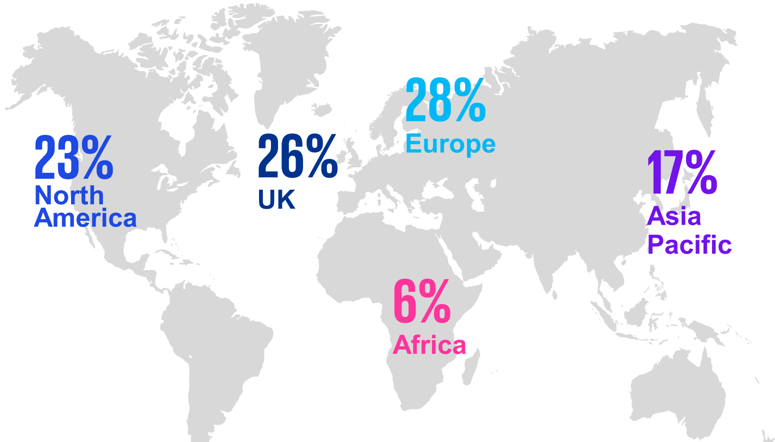
Scope and approach

Climate-first

Our benchmarking analysis focuses on climate-related disclosures. This aligns with the ISSB's 'climate-first' approach and is the most mature area in sustainability reporting.

Insurers included within the analysis

Our 2022 climate-related disclosure benchmarking analysis covers 35 major insurers (see map below). These insurers write business in multiple regions and their 2022 written premiums total USD 1.3 trillion.



- **8 non-life**
- **14 life & health**
- **11 composite**
- **2 reinsurers**

Scope and approach

Which areas are covered?

Our analysis focuses on the following key areas: Financial reporting, Governance, Strategy, Risk management, and Metrics and targets. The latter four are consistent with the four pillars of the Task Force on Climate-related Disclosures (TCFD) framework currently used by many insurers, as well as the ISSB's sustainability reporting proposals (see pages 7–8).

How did we perform the analysis?

We reviewed the climate-related disclosures made by the 35 selected insurers as part of their 2022 annual reports. We have exercised a certain level of judgement when making these comparisons and assessing insurers' disclosures.

Which reports/information have we reviewed?

We reviewed the annual reports for the year ended 31 December 2022 of the 35 insurers selected, including other information as outlined below.

- We looked at the information throughout the annual report (i.e. the financial statements as well as the front part[1] of the annual report).
- We considered 'Other information', which includes climate-related disclosures in other standalone reports covering the same reporting period that insurers released at the same time as or within one month of their financial statements.
- We consider this information as, under the ISSB™ proposals, information can be included outside the annual report via cross-referencing to other documents where these are released at the same time.
- We reviewed the English language, online 'glossy' versions of the annual reports. If these were not available, we reviewed the relevant regulatory filings (e.g. Form 10-K).

[1] Throughout this report, 'front part' refers to the directors' report and areas of the annual report other than the financial statements. 'Financial statements' refers to the financial statements and notes to the financial statements.

Observations on insurers' climate-related disclosures

Location, timing and connectivity

100% of insurers provide climate-related disclosures **mainly** in the front part of their 2022 annual reports

46% of insurers release their full suite of climate-related disclosures at the same time as their annual reports

Highlights from our analysis:

Location

- Large amounts of climate-related information are often included both in the annual reports and other standalone reports (e.g. climate or ESG reports). For a comprehensive view, users need to navigate various documents.
- Climate-related disclosures are mainly included in the front part of 2022 annual reports – typically the wider risk management, governance and strategy sections.
- Often there is repetition in and across the 2022 annual reports and other standalone reports – e.g. the strategy (including net-zero targets) is often reported multiple times.

Timing

- The publication date of insurers' climate-related disclosures impacts users' ability to obtain a comprehensive view at a specific point in time.
- Many of the UK, European and Australian insurers published their full 2022 climate-related disclosures at the same time as their financial statements –either in the annual report or in other standalone reports. This is likely due to heightened regulation.
- As part of incoming IFRS Sustainability Disclosure Standards and other local requirements, insurers will need to prepare to report their climate-related disclosures at the same time as the financial statements (see pages 7-8). If insurers are not already doing this, then they will need to step up to produce the necessary disclosures.

Connectivity

- Improving the connectivity of information across the front part of the annual report, the financial statements and other standalone documents is key.
- Our analysis showed the emerging practices of:
  - including a summary of the reports available and their relevant links in the annual report;
  - identifying climate-related disclosures clearly in the annual report's table of contents;
  - signposting where relevant and linking to other reports that include climate-related disclosures; and
  - aligning the publication dates of annual reports and other climate-related reports.

Getting ready for the new standards

Sustainability reporting is developing quickly

The ISSB proposals are expected to be finalised in June 2023 and will be effective for annual reporting periods beginning on or after 1 January 2024.

Adoption of these first two ISSB Standards is dependent on individual jurisdictions, so the effective date may vary by location, but a rapid route to full adoption is expected by a number of jurisdictions.

Beyond the ISSB proposals, the mandatory reporting landscape is developing rapidly in many jurisdictions. For example, in the US the SEC has a proposed rule and the draft European Sustainability Reporting Standards (ESRS) are due to be finalised in the coming months.

The ESRSs would first apply for years beginning on or after 1 January 2024 with a phased introduction. The effective date of the SEC-proposed rule will remain open until adoption is complete.

Comparing the ISSB, SEC and ESRS sustainability reporting proposals

There is commonality among the ISSB, ESRS and SEC proposals – including that the TCFD framework forms a shared input.

However, there are also areas where they are not aligned, which may create practical challenges for companies (including internationally operating insurers) trying to design coherent and consistent reporting that meets both global investors' needs and jurisdictional requirements.

For multinationals and others needing to apply multiple frameworks, the challenges would be magnified if the requirements are not compatible.

Getting ready for the new standards (continued)

Based on observations, which areas require the biggest lift to meet the requirements in the sustainability reporting proposals?

More work is needed on timing, location and connectivity of climate-related information to meet the requirements in future sustainability reporting proposals.

The ISSB, EU and SEC proposals require sustainability-related information to be reported at the same time, and for the same period, as the annual financial statements[2].

Insurers would need sufficiently rigorous processes and controls to generate timely, high-quality disclosures and achieve connectivity. This is likely to involve multiple departments, including (and beyond) financial and sustainability reporting.

Some insurers (such as the UK, European and Australian insurers) are ahead on areas such as timing (see page 6). However, all still need to focus on getting ready – despite transitional reliefs that may be available.

Where and when would the information be disclosed under the incoming reporting requirements?

- Many insurers currently do not report all of their climate-related information within the annual report.
- In the 2022 annual reports of many insurers, climate-related information is provided in multiple locations without clear connectivity to the financial statements (see page 6).
  - Under the ISSB, ESRS and SEC proposals, achieving connectivity between sustainability reporting and financial reporting would be important.
  - Cross-referencing of climate-related information in the annual report would be permitted under the sustainability reporting proposals; however, their requirements vary. Refer to the Comparing sustainability reporting proposals talkbook for further information.

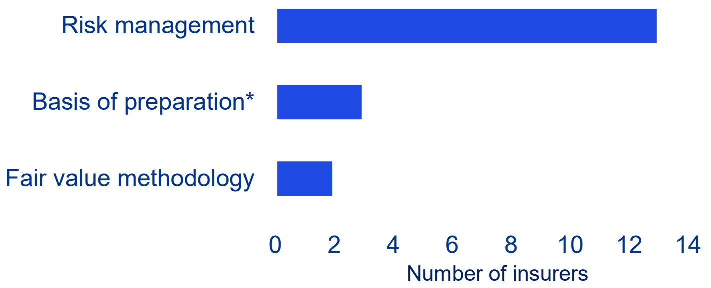
[2] The ISSB proposes first-year reliefs that would allow companies to report sustainability-related information later than the financial statements, and to include climate-related information only. For further information, refer to the Sustainability reporting resource centre articles Timing of sustainability reporting and Introducing a climate-first option.

Financial reporting

Financial reporting – Key observations

40% of insurers mention climate in the financial statements

Notes to the financial statements that mention climate include:



*including critical estimates and judgements

Key consideration for insurers: Connectivity

Improving the connectivity of climate-related information to the financial statements is key. Investors and regulators are increasingly seeking greater transparency of climate-related information in financial statements.

What climate-related information do insurers disclose in the financial statements?

- 40 percent of insurers mention climate in the financial statements. The nature and extent of this information is often limited – e.g. disclosing in a single statement that known and observable climate-related impacts have been considered.
- Of these insurers, many state they have assessed the impact of climate-related risks on their financial statements and conclude there is no material impact at this time or in the short to medium term.
- Further information is typically included in the risk management disclosures – i.e. market, strategic, underwriting and reserving risk disclosures. However, a few insurers are starting to present sustainability-related risks separately.

What do they disclose about the climate-related impact on financial performance?

- They disclose limited qualitative and quantitative impacts in their financial statements; however, they acknowledge the impact of climate-related risks and opportunities on investment, underwriting, claims and reserving processes in the front part of their annual reports.
- This means users may find it challenging to understand the climate-related impact on financial performance, in particular the valuation of investments and insurance liabilities.

How can insurers improve connectivity?

- Insurers can improve connectivity by:
  - considering climate-related risks and opportunities and their financial impacts – e.g. by including disclosures in the financial statements within the insurance contract liabilities and investment-related notes;
  - considering materiality from both a quantitative and qualitative perspective in relation to disclosures of key judgements and assumptions on climate-related risk;
  - providing clear and robust disclosures; and
  - as appropriate, using assumptions consistent with information on climate-related risks elsewhere – and providing additional explanations where inconsistencies arise.

Financial reporting – Auditors' reports

34% of insurers' auditors' reports mention climate

From the auditors' reports that mention climate…

100% of these auditors' reports note that climate-related risks did not constitute a key audit matter – i.e. they were not considered to materially affect the auditors' assessment of risks

Key consideration for insurers: Impacts of climate-related risks

Insurers will need adequate processes and controls to monitor the impact of climate-related risks so that they can provide appropriate disclosures in the financial statements. While the climate-related risk impacts may be insignificant for insurers currently, this may change quickly due to regulation, strategic decisions or shifts in climate-related patterns.

What do auditors' reports cover?

- Where the auditors' reports discuss climate-related matters, this is either part of a separate climate-related section or referred to throughout the report. The key areas discussed include:
  - how the auditor obtained comfort that the information in the annual report is consistent with other standalone reports (e.g. sustainability and TCFD reports); and
  - the nature of planning and the risk assessment procedures performed to understand climate-related risks' impact on the financial statements (including their ability to continue as a going concern) and the audit approach.

Financial reporting – Assurance reports

57% of insurers have obtained some form of assurance over climate-related, non-financial data

Of which…

55% of the insurers use the same firm for both their financial statements' audit and their assurance opinions

Key consideration for insurers: Assurance

We expect assurance reporting will be an emerging area of focus in the coming years. Insurers need to consider how and when the requirements may affect them because, in the event of mandatory assurance, they will need high-quality data and early engagement with assurance providers.

What do assurance reports cover?

- Just over half of the insurers surveyed obtain assurance over climate-related information in the front part of the annual report – i.e. outside the financial statements.
- Generally, assurance reports provide limited assurance over certain quantitative metrics (e.g. greenhouse gas (GHG) emissions and responsible investment) in the front part of the annual reports or in standalone sustainability reports (e.g. the TCFD report and sustainability report).

Do assurance reports cover broader sustainability topics?

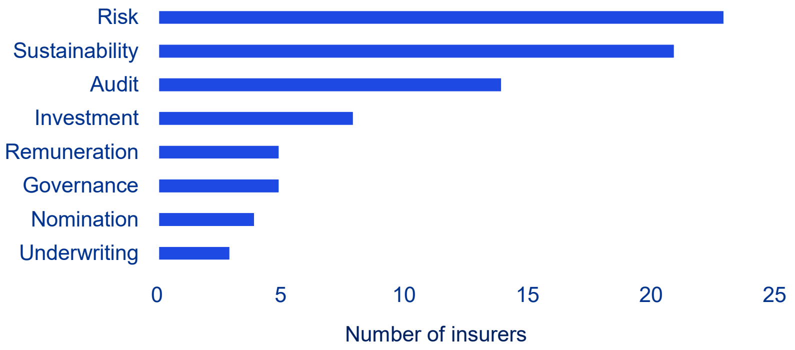
- Assurance reports do not focus solely on climate-related information.
- Insurers are also obtaining assurance over qualitative metrics in the front part of the annual report or sustainability reports relating to wider sustainability-related metrics (e.g. biodiversity, people and culture).

Governance

Governance – Key observations

86% of insurers disclose information in their annual reports regarding the governance of climate-related matters

Types of committees responsible for sustainability-related risks and opportunities



Insurers' 2022 annual reports identify new ESG roles or roles dealing with climate-related matters, including:

- Global climate officer
- Financial climate risk specialist
- Head of climate change and environmental impact

What are the key observations?

- Many insurers disclose the responsible persons from the board and senior management for climate-related matters. However, disclosures on how their performance is monitored are limited.

Roles and responsibilities

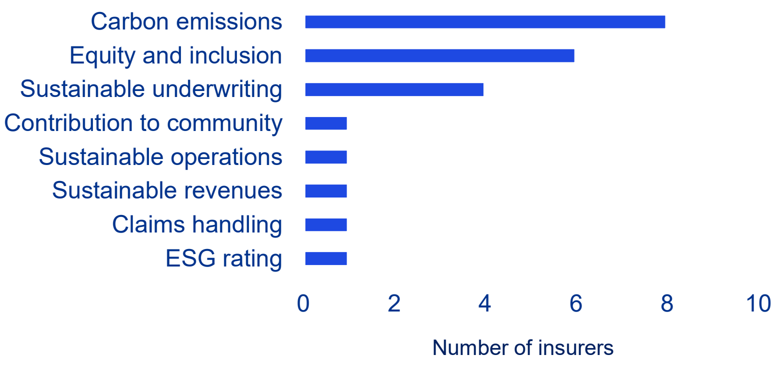
- Many insurers disclose climate change as a matter overseen by the board. Boards provide oversight over two key areas: an insurer's climate-related strategy and its climate-related risks.
- Boards are supported by multiple committees. Committees responsible for overarching climate-related risk and strategy are either one or a combination of sustainability, risk or governance committees. In addition, insurers note the involvement and general focus of the following committees.
  - ***Audit:*** Climate change and impact on disclosures in the financial statements.
  - ***Investment:*** Integrating climate-related matters into investment policies and strategies.
  - ***Underwriting:*** Integrating climate-related matters into underwriting policies and strategies.
  - ***Remuneration:*** Integrating and monitoring the impact of sustainability-related KPIs (including climate-related matters) on remuneration.

Governance – Key observations (continued)

49% of insurers refer at least once to ESG targets (including climate-related targets) forming part of individual performance indicators

Insurers' remuneration targets have a broad range of ESG factors, not just climate change, as illustrated below.

ESG factors to which remuneration targets have been assigned



What are the key observations?

Remuneration

- Of the insurers with ESG targets that form part of individual performance indicators, the extent of the disclosure varies.
  - ***Limited:*** General disclosures highlighting that executive compensation is linked to ESG objectives or will be linked to ESG objectives within the next 12 months.
  - ***Detailed:*** Clearly identified key performance indicators (KPIs) that impact remuneration and that outline who is impacted (e.g. group executive committees vs employees).
- When KPIs are presented, they are linked to multiple parts of the remuneration system or package, ranging from a short-term annual bonus to a long-term incentive grant.
- Emerging practice observed from our analysis includes:
  - clearly disclosing the KPIs used to track the effectiveness of the climate-related strategy implementation; and
  - demonstrating how those KPIs impact the remuneration of persons with the relevant roles and responsibilities.

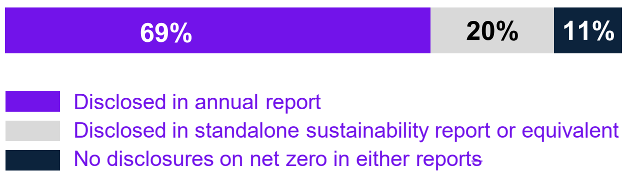
Strategy

Strategy – Key observations

80% of insurers disclose their climate-related strategy in their annual reports

Net-zero goals

Insurers disclosing their focus on becoming net zero by or before 2050:



Insurers' strategy is focused on more than just climate change. Other key areas of focus include workplace diversity and sustainable operations, procurement and investment.

What are the key observations?

- Of the insurers disclosing their climate-related strategy in their annual report, many disclose:
  - the impact of climate-related risk on the business model and value chain, as well as their risk mitigation activities; and
  - their net-zero goals and details of the metrics they use to measure and track progress on targets, as well as information about the progress made since prior reporting periods.

Net-zero goals:

- Of the insurers disclosing their net-zero targets in either their annual reports or their standalone sustainability reports, 68 percent use interim targets to track progress towards an end goal and 32 percent disclose a single end-goal target only.
  - ***Interim targets:*** Generally, insurers are using interim targets to indicate that net zero can be achieved for certain aspects of the business (e.g. operations and-supply chain) by 2030 and aim towards emerging areas (e.g. financed and insurance-associated emissions) at a later date (i.e. by 2050).
  - ***Single target:*** Of those disclosing single targets, the majority indicate that they aim to achieve net zero by 2050.

Progress towards net-zero goals:

- Many of the insurers disclose their net-zero targets in their annual reports, and report how they are progressing towards their net-zero ambitions.
- A few insurers disclose that they have met their original interim target(s) before their target date. In these cases, they have brought forward their original net-zero target date.
- Despite progress made, there is still much to do. Only a few insurers disclose a detailed transition plan or gives details of their actions over the short, medium and long term to achieve progress on their overall net-zero goals.

Strategy – Key observations (continued)

54% of insurers disclose information on the climate-related scenario analysis they use for assessing exposure to climate-related risks and opportunities

Key consideration for insurers: Scenario analysis

Under the new standards, insurers will be required to use and disclose information on scenario analysis. Those insurers not currently performing scenario analysis may consider:

- understanding the proposed requirements;
- assessing who needs to take the lead in their organisation;
- understanding the data and inputs needed to perform insightful scenario analysis;
- determining the appropriate level of granularity to perform the analysis; and
- assessing whether existing systems, processes and controls provide disclosures that describe their resilience assessment.

What are the key observations?

Scenario analysis:

- The nature and extent of scenario analysis disclosures in the annual reports vary as follows.
  - ***Limited disclosures:*** Include how the insurer has used climate-related scenario analysis in its risk management/strategy-setting processes. Further details are referred to in other reports – e.g. sustainability and TCFD reports.
  - ***Detailed disclosures:*** Provide more detailed information, including some of the items listed in the table below.

Scope	• Typically focuses on underwriting and investment portfolio. • Typically insurers disaggregate these portfolios in their analysis. For example: – ***underwriting***: disaggregation by line of business, region, industry and sector insured to understand the impact on future losses; and – ***investment:*** disaggregation by sector and asset type to understand the impact on future investment valuation.
Time horizons	• Practice varies in the time horizons considered. Assessment horizons range from 2025 to 2100; others just state a period of time – e.g. 30 years.
Scenarios	• Typically insurers are leveraging existing frameworks (e.g. 'disorderly', 'orderly' and 'hot house world' quadrants of the Network for Greening the Financial System framework and/or the Intergovernmental Panel on Climate Change scenarios). • Locked in physical impacts range from 1.3°C to 4.3°C.

- It is not yet clear how climate-related scenario analysis is used to evaluate the resilience of the climate strategy; how it informs strategic planning; and how it connects to other scenario analyses that insurers already perform and often disclose in the financial statements – e.g. scenario analysis used for measuring insurance liabilities, going concern or viability assessments. There is clearly more work to be done in this area by insurers.

Risk management

Risk management – Key observations

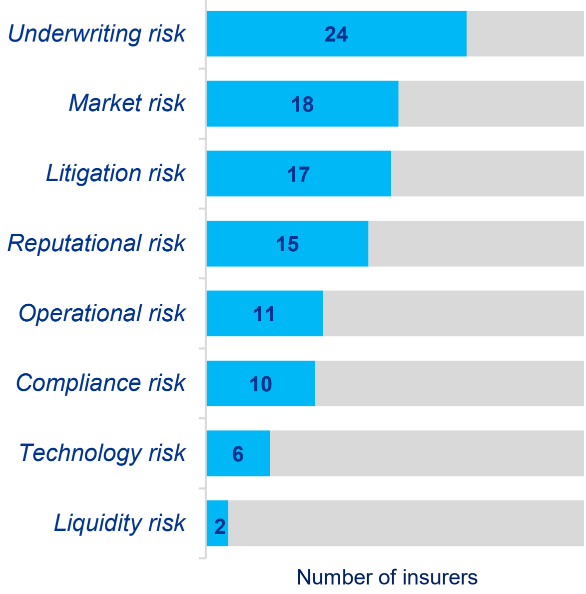
Impact on insurers

of insurers disclose that climate-related risks could have a material or adverse impact on their businesses

Impact on other risks

of insurers disclose that climate-related risks impact other types of risks

Types of risks impacted



What are the key observations?

Categories of climate-related risks:

- A few insurers categorise climate-related risks as a principal risk (or equivalent) with both financial and non-financial impacts.
- They acknowledge there are both physical and transition risks that could have material or adverse impacts on their businesses. However, the impacts of these risks over the short, medium and long term are often unclear.

Other risks impacted:

- Some insurers are integrating climate-related risks into their overall risk management framework and considering climate-related impacts in relation to their other primary risks.
- Underwriting risk arising from climate-related physical risk appears to be the primary risk, followed by market risk and litigation risk.
- Insurers' awareness of litigation risk is growing, in part due to greenwashing concerns - i.e. potential litigation from a failure to meet specific climate-related obligations or commitments, or customer protection claims regarding sustainable finance products and services.

Materiality assessments:

- Just over one-third of the insurers disclose how they identify and assess material climate-related risks and opportunities. Some of these insurers also disclose the frequency of their materiality assessment, which typically ranges from one to three years.
- Some of these insurers provide information on how they determine material risks and opportunities for ESG matters more broadly, or refer to information disclosed in other ESG reports.

Metrics and targets

Metrics and targets – Key observations

Targets – Common focus areas

% of insurers disclosing the following specific targets:

To reduce operational emissions to net zero (usually by 2030)

37%

To reduce financed and/or facilitated emissions by 2050

37%

To reduce insurance-associated (underwriting) emissions by 2050

23%

Metrics

% of insurers disclosing climate-related metrics and progress made in relation to metrics within their annual reports

54%

What are the key observations?

- Many insurers disclose information on their climate-related metrics in the annual reports. However, for many, their progress on metrics and targets against their corresponding climate-related strategies remains unclear.
- Insurers disclose GHG Protocol[3] Scope 3 emissions at varying levels of detail. Some are able to capture data across more categories in Scope 3; for others, the current data is limited to fewer categories – e.g. business air travel or fuel and energy-related activities. Some insurers commit to provide more detailed disclosures under other categories of Scope 3 emissions in the future.
- The following emissions are the key focus for some insurers. However, they do not yet disclose the total underwriting or financed emissions across their full underwriting and investment activities.
  – ***Operations:*** Some insurers note that there is considerable uncertainty in measuring Scope 3 categories for operations. This is because most emissions stem from activities in the insurer's supply chain – e.g. embodied emissions – which are beyond their direct operational control. The corresponding accounting methodologies and data collection systems are also not yet mature.
  – ***Financed emissions[4]:*** Insurers providing disclosures on financed emissions typically disclose information on weighted average carbon intensity, carbon intensity, absolute footprint and relative footprint targets for certain investment types. A few insurers also provide disclosure on other metrics – e.g. warming potential, green investments and engagement with the highest emitters in their portfolio. However, most of the insurers do not yet disclose which investments within the portfolio are covered in the financed emissions metrics.
  – ***Insurance-associated emissions[4]:*** A couple of insurers disclose green premiums and GHG emissions associated with written business. Where insurers focus on GHG emissions, they typically prioritise the reduction of GHG emissions in certain sectors, typically by active portfolio management.

[3] The GHG Protocol Corporate Value Chain Standard identifies 15 categories of Scope 3 emissions. Further information can be found in the GHG Emissions Reporting Handbook.

[4] Insurance-associated emissions and financed emissions are classified as Category 15 emissions under the GHG Protocol Corporate Value Chain Standard.

Metrics and targets – Key observations (continued)

Metrics – Calculation methodology

% of insurers that refer to a metric calculation methodology in their annual report:

Key consideration for insurers: Data challenges

Better data and a globally accepted methodology would help insurers deliver more clarity.

Collecting quality data is a challenge. Some insurers use primary data but if this is not possible then they depend on third-party data and the use of estimates and assumptions.

Some insurers are also aiming to enhance their primary data sources and have disclosed their commitment to do so.

What are the key observations?

Calculation methodology:

- Some of the insurers disclosing climate-related metrics and targets in their annual report have reported emissions under the GHG Protocol or the Partnership for Carbon Accounting Financials (PCAF), or both.
- Over one-third of the insurers surveyed provide disclosures under the GHG Protocol.
- Just over one-quarter of the insurers surveyed are currently reporting emissions under PCAF.
- Other frameworks for metrics and targets highlighted by insurers include Science Based Targets and the Streamlined Energy and Carbon Reporting framework (applicable to insurers in the UK).

Data challenges:

- A number of insurers note that data challenges impact both their assessment of climate-related risks and opportunities and the GHG emissions measurement across their operations, underwriting and investment portfolios.
- Some insurers disclose they are dependent on third-party data, models and tools to calculate the business impact of climate change.

Keeping in touch

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