



October 2021

Climate change reporting

What we've seen thus far

pkf-l.com

Today's speakers



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Standards and legislation – a recap

April 2019
PRA PS11/19 & SS3/19

- Highlights a strategic approach is needed, encompassing governance, risk management, scenario analysis and disclosure
- Identifies three risk factors (physical, transition and liability risks) and distinctive elements of financial risks from climate change
- Initial plan to address expectations in place and SMF form to be submitted by 15 October 2019

July 2020
PRA Dear CEO Letter

- Thematic feedback from PRA's review of firms' SS3/19 plans
- Provides observations from thematic review and examples of good practice
- Clarifies that firms should have implemented and fully embedded their approaches to managing climate-related financial risks by the end of 2021

November 2020
HMT Roadmap

- Indicative path towards mandatory disclosures across UK economy
- Illustrates how coverage of supervisory expectations, disclosure rules or legislative requirements is expected to rise 2021-2025

June 2021
FCA CP21/17

- Consultation on proposals to introduce climate-related financial disclosure rules and guidance for asset managers, life insurers and pension providers
- Introduces new ESG Sourcebook
- PS expected in late 2021

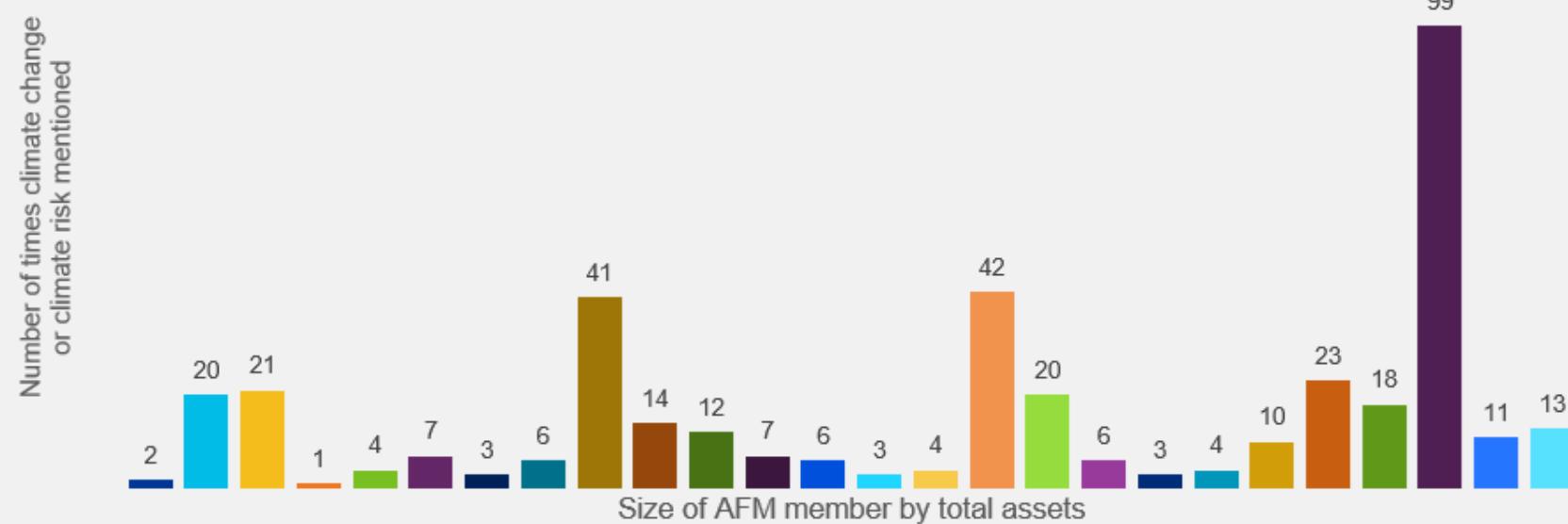
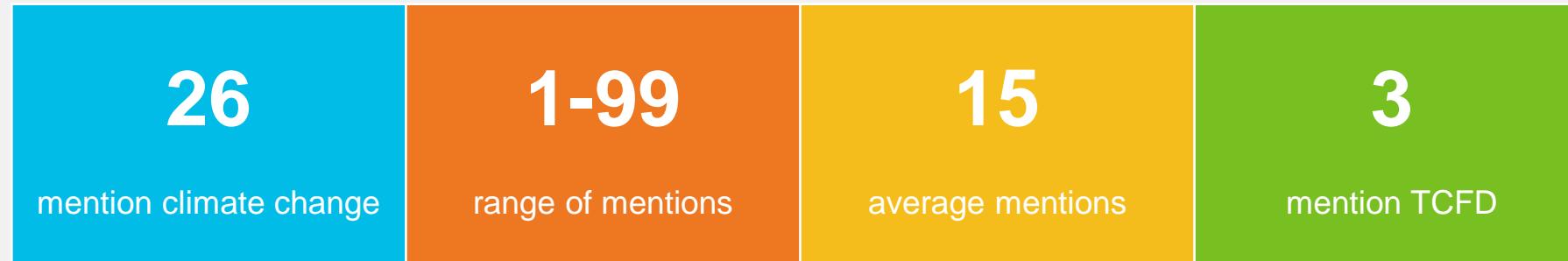
► TCFD disclosures – a recap

- Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information
- TCFD recommendations are structured around four thematic areas
- Recommendations for all sectors as well as supplemental guidance for financial sector, including insurance companies
- Supported by seven principles for effective disclosure



Current climate change reporting among AFM members

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Governance

Disclose the organisation's governance around climate related risks and opportunities

Recommended disclosures

1. Describe the board's oversight of climate-related risks and opportunities
2. Describe management's role in assessing and managing risks and opportunities



What we've seen

- Clear statements about board ownership, oversight responsibility or commitment from the top
- Description of how the board achieves this
- Structure charts and description of other governance or steering committees with responsibility for climate risk
- Role, responsibilities and reporting lines of management – including SMF allocation
- Board and senior management remuneration
- Climate-related staff councils / forums or initiatives – demonstrates climate change is important across all levels of the organisation from top to bottom

The RSA Group Board has responsibility for oversight and challenge of the overall strategy of the Group, including considering climate-related issues in business plans and exposure to risks. In 2020, the Board have received regular updates on implementation of RSA's Climate Change Action Plan, Climate Change and Low Carbon Policy position, and considered how climate change risks and opportunities are addressed through the operational plan. In 2020 we have also provided training for our subsidiary Boards on key trends related to climate change, physical and transition risks and RSA's response.

Source: RSA Insurance Group plc – Annual Report & Accounts 2020

The Board is ultimately accountable for the long-term stewardship of the Group. Responding to climate change and the risks associated with it are of importance to the Board.

Source: Legal & General Group Plc – 2020 Climate Report

The Group prides itself on good sustainability governance underpinned by our Vision and Purpose (see page 8) and a clear commitment from the top to align sustainability goals and ensure relevant accountability across the business.

Source: Direct Line Group – TCFD Report 2020

In 2020, AXA created an internal structure to accelerate AXA's ability to leverage its business model to respond to societal issues, with a strong focus on climate-related considerations and in a holistic mindset.

Source: AXA Group – 2021 Climate Report

► Governance (continued)



Disclose the organisation's governance around climate related risks and opportunities

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2. Describe management's role in assessing and managing risks and opportunities



What does this mean for AFM members?

- Unlikely to have complex governance structures
- Need to be able to explain (and demonstrate!) how governance over climate change is achieved
- Can probably re-purpose a lot of governance-related information in existing annual reports and ORSAs/SFCRs
- Linkage to vision, purpose and values will be important to your members – play to your strengths and keep it meaningful
- Keep good governance records so you can readily report and to support your disclosures

At OneFamily we're passionate about the people and environment around us. We're committed to doing the right thing at every level, sustainably and responsibly and playing our part in preventing climate change. During 2020 our Risk Management Framework was enhanced to cover our approach to assessing and managing the impact of climate change. More can be read about this on page 40 within our Risk management report.

Source: One Family – Annual Report & Consolidated Financial Statements 2020

Corporate Responsibility Report and Actions on Climate Change

Our Society is committed to act fairly and responsibly towards its members, its employees, and the society at large. This commitment sits at the core of our Society's ethos.

Source: Foresters Friendly Society – Annual Report & Accounts 2020

Climate change issues are important to us both from the point of view of our Members and how it impacts their lives and businesses, but also in relation to the financial risks of climate change, which we may encounter as a business. This is an area which we are looking at with more focus, in line with the expectations of the PRA, as we seek to further embed risk management around the financial risks of climate change in our governance framework.

Source: Cornish Mutual – Annual Report & Financial Statements 2019/20

Risk management

Disclose how the organisation identifies, assesses and manages climate-related risks

Recommended disclosures

1. Describe the organisation's processes for identifying and assessing climate-related risks
2. Describe the organisation's processes for managing climate-related risks
3. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management
4. Supplementary guidance for insurance companies



What we've seen

- Overview of risk management framework – climate risk is generally integrated
- Reference to specific risk management activities including risk assessment and emerging risk processes as well as ORSA/SFCR
- Description of different types of climate risks, their impact and how they are managed including use of models / tools – varying levels of detail
- Some also refer to liability risks and regulatory risks
- RSA is one of the few that describes climate-related opportunities e.g. increased demand for renewable energy insurance
- Contribution to / involvement in industry forums / initiatives to enhance understanding and assessment of climate risks



Risk management (continued)



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What does this mean for AFM members?

- Description of risk management framework should be relatively straightforward
- May need some refresh to ensure climate risk incorporated into risk documentation / processes
- Main challenge is identifying specific climate risks to your organisation
- May have some reliance on third-parties (investment advisers / managers, actuaries) to help manage climate risks
- May not have advanced models / tools
- Start with an integrated approach rather than trying to integrate at a later stage

Risk management

The Society has identified the climate change related risks and opportunities shown below, together with actions being taken or considered to mitigate these risks or harness these opportunities.

Risk and opportunities	Mitigating actions
Financial losses from claims caused by the physical impact of climate change and the potential changes to mortality or morbidity.	Embedded risks in the Society's scenario and stress testing to assess the potential impact on solvency and liquidity.
Financial losses from investments caused by transitional risks from adjustment to a low carbon economy or changing market conditions due to climate change.	Engagement with our investment providers to understand their approach to climate change.
Shift in members' expectations and demands caused by climate changes that we may not be able to fulfil and leading to reputational risks.	Assessment of existing products and policies and consideration of changes to products and policies to meet members' demands.
Operational failures caused by physical impacts of climate change, for example on essential utilities, business critical supplies and distribution networks.	Integrating scenarios into disaster recovery testing.

Source: Shepherds Friendly – Annual Report & Financial Statements 2020

Metrics and targets



Disclose how the organisation identifies, assesses and manages climate-related risks

Recommended disclosures

1. Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process
2. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.
3. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.



What we've seen

Only the largest UK insurers are currently reporting comprehensive, quantitative targets and metrics above those required by the Streamlined Energy and Carbon Reporting regulations, for example:

- Net Zero company by 20XX
- Reduction in carbon footprint of investments by X% by 20XX
- Invest £Xbn in low-carbon and renewable energy infrastructure and buildings by 2025
- Deliver £Xm of climate transition-focused loans

Smaller insurers have thus far generally refrained from setting targets and those that have are principally disclosing qualitative goals:

- Launch / develop new ethical / 'climate conscious' products
- Commit to moving majority of key supplier relationships to local businesses (e.g. printers)
- Reductions in business travel, water usage etc.

"We are committed to playing our part in helping the UK become a sustainable, low carbon economy. Our aim is to reduce the carbon equivalent emissions of our business activities to net zero by 2050 in line with the 2015 Paris Agreement targets."

Source: OneFamily – Annual Report & Financial Statements 2020

We're committed to achieving a minimum 50% reduction CO2 emissions by 2030, and net zero by 2050 across our investments.

Source: Royal London – Annual Report & Financial Statements 2020



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Install electric vehicle charging points at our main Stratford Head Office locations.

Source: NFU Mutual – Responsible business report 2020

Metrics and targets (continued)

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3. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.



What does this mean for AFM members?

- Proportionality is important – start with explaining extent of risk and disclosure with reference to your Society's business model
- All firms are still 'on a journey' and convergence around metrics is ongoing – don't be afraid to say as such
- Don't under-estimate the use of qualitative metrics in the early years – the PRA has said as such!
- Distinguish aims and ambitions between those being actively pursued and included in budgets/forecasts and those which are still aspirational
- How can targets link in to your purpose and affinity base?

Climate metric	Measurement
Investment in green assets	Measure Aviva's investment in Green Assets i.e. Green Bonds and Low Carbon Infrastructure and compare to target
Carbon foot-printing	Use carbon foot-printing and weighted average carbon intensity data to assess the exposure of our assets compared to 25% reduction target by 2025 Measure the operational carbon emission tCO2e and compare to target
Portfolio warming potential	Measure the operational carbon emission tCO2e and compare to target
Climate VaR	Measure the portfolio temperature pathways and alignment to Paris Agreement target
Monitoring of sovereign risk	Measure our exposure to countries highly or moderately vulnerable to climate change and review sovereigns holdings with Notre Dame-Global Adaptation Index ND-GAIN index below 50
Weather related issues	Actual weather-related losses versus expected weather losses by year and business unit and Weather impact on COR – over/under long-term average

Source: Aviva – Climate-Related Financial Disclosure 2020

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material

Recommended disclosures

1. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term
2. Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.
3. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.



What we've seen

- The largest insurers aside, climate strategies are thus far not well developed
- FRC and PRA theomics state that disclosures thus far have not been specific enough – users want more detail
- Risks and opportunities are being identified, yet not tying in with the disclosures of the broader strategic objectives / business model

"At the end of the day this is the beginning [of reporting]. More of an art than a science and I'm not looking for precision. I want the company to be doing the exercise, having high-level decision makers involved, some kind of strategic implementation and consideration – that's the important part" – Investor

FRC Climate Thematic 2020



► Strategy (continued)

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Recommended disclosures

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3. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.



What does this mean for AFM members?

- “If you can’t measure it, you can’t monitor it”, but why are you measuring it?
- Link climate strategy as much as possible back to what you’re already doing
- What does your Society look like in the future and how will it continue to generate value?
- If you don’t yet have a comprehensive strategy, bring your thinking thus far to life with examples of Board decision making

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< Mutuality > Our climate change commitments



Our climate change commitments

We are responsible for managing over £148 billion of your money. This money can play a significant part in helping society transition to a sustainable world.

More about 'Together for good', our campaign to protect the standard of living of this and future generations

► Summary

- Think about your **business model** first and how susceptible it is to the effects of climate change
- The PRA acknowledges that firms need to be **proportionate** in their response
- **Repurpose** existing governance structures and risk management frameworks
- Don't rush to the finish line and start with an **integrated approach** rather than trying to integrate later
- Use this as a chance for competitive advantage – link to **vision, purpose and values** to build credibility and consider where best to disclose



► Further detail





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