

# Net Zero Actuaries

How do we need to evolve our skillset to stay relevant in a low carbon future?



November 2021

# Welcome Anthropocene Actuaries!

# Today

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- **Reflections from COP**
- **Developing market practice in insurance**
- **Regulatory expectations – UK PRA**
- **Implications for actuaries**

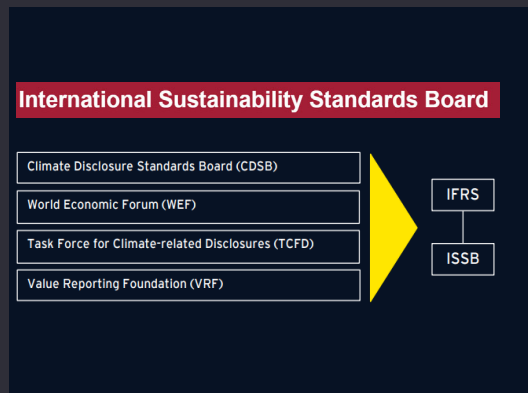
# COP26 climate conference in Glasgow



**Business must remain ambitious in line with 1.5**



**Nature!**



**Alignment of regulations and standards**



**A blended finance model will be required to fund the transition**



**Commitment and transparency are important but need to be followed by action**

# Taking action: industry initiatives around climate and net zero

## Net zero Initiatives



## Wider climate & ESG initiatives




# Developing climate practice amongst insurance market participants

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# Summary of insurance market practice

Key:   
Direction of Travel showing range observed in benchmarked companies

The graphic below positions a client relative to average climate change market practice assessment score (for each dimension) against the peer group's range. **High level graphic is underpinned by detailed analysis resulting in granular sub-dimension and a comparison against each peer assessed.**

## Governance:

Leading insurers further incorporate climate change goals into incentive structures and identify skills gaps within the organisational structure to improve governance on climate change risks.

## Strategy:

Advanced insurers work towards an overarching commitment to be Net Zero by 2050 and the climate change strategy execution is underway.

## Risk management:

Advanced insurers perform regular forward looking assessment of risk over different timeframes, define a climate risk appetite and consider net-zero alignment.

## Metrics and Targets:

More advanced and leading insurers have defined short/medium/long term clear measurable targets with detailed plans on how they will be achieved.

## Investment Strategy:

Leading insurers consider climate implications as part of each investment decision and make extensive use of climate solutions.

## Engagement:

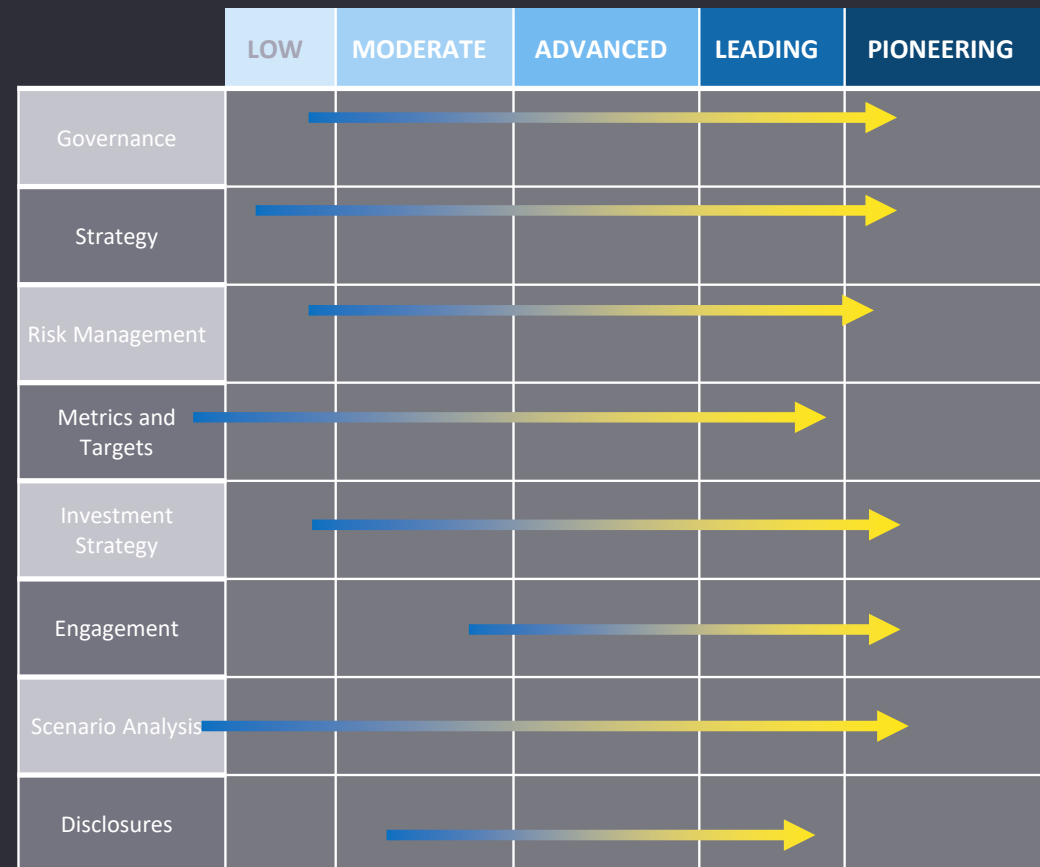
Pioneering insurers drive change through engagement in order to align the portfolio with net-zero targets.

## Scenario analysis:

Advanced insurers have undertaken scenario analysis to inform climate change strategy and use some off the shelf scenarios.

## Disclosure:

Leading insurers further include scenario analysis within TCFD reporting and report on climate-related financial impacts, which are subject to third party assurance.



# Regulatory expectations

PRA SS3/19, Supervisory Statement, Enhancing banks' and insurers' approaches to managing the financial risks from climate change (April 2019)

## Summary expectation

 <p><b>Governance</b></p>	<ul style="list-style-type: none"> <li>• Clear allocation of responsibility to an SMF holder</li> <li>• Associated governance structure to cascade strategy</li> <li>• Board oversees development and implementation</li> <li>• Explicit consideration of impact on profitability and strategy</li> </ul>
 <p><b>Risk Management</b></p>	<ul style="list-style-type: none"> <li>• Credible plan for managing exposure by end 2021</li> <li>• Estimation of potential financial loss (even if crude)</li> <li>• Alignment across identification, measurement, reporting and management, supporting decision making</li> <li>• Client engagement re potential risks and mitigants</li> </ul>
 <p><b>Scenario analysis</b></p>	<ul style="list-style-type: none"> <li>• Requires investment of time irrespective of firm size, and can be both qualitative and quantitative</li> <li>• Consider a range of scenarios, including reverse stress test</li> <li>• Use to inform risk and strategy decisions</li> </ul>
 <p><b>Disclosure</b></p>	<ul style="list-style-type: none"> <li>• Develop decision-useful disclosures</li> <li>• Build capability and accelerate progress</li> <li>• Monitor industry developments and areas of evolving standards and harmonisation</li> </ul>

## Considerations

<ul style="list-style-type: none"> <li>• Roles and responsibilities across all three lines of defence</li> <li>• Board has been trained and is updated on implementation plans</li> <li>• Strategy explicitly considers impact of climate risk</li> <li>• Client engagement and product and services review</li> </ul>
<ul style="list-style-type: none"> <li>• Understand current and forward risks</li> <li>• Alignment of risk appetite and strategy, and supporting control framework</li> <li>• Supporting ICAAP and broader disclosures</li> <li>• Proportionality of approach and expectation of evolution</li> </ul>
<ul style="list-style-type: none"> <li>• Leverage standard, reference scenarios</li> <li>• Explore scenarios relevant to current balance sheet and forward strategy</li> <li>• Balance qualitative assessment and drive for quantitative impact estimates</li> </ul>
<ul style="list-style-type: none"> <li>• Specific audience</li> <li>• Peer practice and developing standards</li> </ul>

# Regulatory expectations

PRA SS3/19, Supervisory Statement, Enhancing banks' and insurers' approaches to managing the financial risks from climate change (April 2019)

The Dear CEO letter highlights the findings from the PRA thematic review of plans to address SS3/19. It provides clarification on the timeline for compliance and highlights areas of focus and examples of good practice





## Next steps:

- The PRA notes that there will continue to be ongoing engagement on development of implementation and progress plans
- There is the expectation that firms will continue to provide updates to Boards on the progress towards implementation

# Regulatory expectations

PRA Observations of good practice in managing climate-related financial risks (from dear CEO letter)

 <p><b>Governance</b></p>	<p><b>Board oversight</b></p> <ul style="list-style-type: none"> <li>▶ Provided training for their board to enable them to oversee this risk appropriately.</li> <li>▶ Demonstrated that the skills required throughout the organisation have been identified, evaluated and a plan made and resourced to close any gaps.</li> <li>▶ Is effective in cascading the strategy throughout the firm, promoting a strong understanding of the risks (financial, reputational and CSR)</li> <li>▶ Incorporate climate risk in incentive structures, in order to drive the right progress in the firm. This provides incentives for decision-makers to weigh various considerations around climate risk against other factors when setting strategy.</li> </ul>	<p><b>SMR</b></p> <ul style="list-style-type: none"> <li>▶ Able to describe clear allocation of responsibility below the SMF(s) and clear roles and responsibilities across all three lines of defence.</li> </ul>
 <p><b>Risk Management</b></p>	<p><b>Risk identification and measurement</b></p> <ul style="list-style-type: none"> <li>▶ Model potential impact on capital, and associated sensitivities, by using a climate value-at-risk, warming potentials (e.g. Paris Agreement alignment), and (in banking) climate-adjusted probability of default and/or loss given default, for example.</li> <li>▶ One firm have embedded the use of an internal climate impact risk-weight.</li> </ul>	<p><b>Risk management and mitigation</b></p> <ul style="list-style-type: none"> <li>▶ Gather relevant data during client on-boarding and at annual reviews to develop their own management information framework.</li> <li>▶ Provide training to relevant staff (e.g. those involved in client on-boarding or conducting credit risk assessments).</li> </ul>
 <p><b>Scenario analysis</b></p>	<p><b>Utilisation of Scenario Analysis</b></p> <ul style="list-style-type: none"> <li>▶ Use scenarios to: <ul style="list-style-type: none"> <li>▶ Inform their business;</li> <li>▶ Develop their understanding of climate risk (such as the potential transmission channels);</li> <li>▶ Inform their internal model risk calibrations; and</li> <li>▶ Inform the integration of climate risk into their risk management framework</li> </ul> </li> </ul>	<p><b>Choice of scenarios.</b></p> <ul style="list-style-type: none"> <li>▶ Create tailored scenarios to match better their business, and accessed a range of resources to inform their scenario work.</li> <li>▶ Firm-specific scenarios tended to test different business units and differentiate impacts on business lines within business units.</li> <li>▶ Better scenario analysis looked at both physical and transition risks as well as investigating a range of short- and long-term time horizons.</li> </ul>
 <p><b>Disclosure</b></p>	<p><b>Disclosure format</b></p> <ul style="list-style-type: none"> <li>▶ Publish TCFD format disclosures in, or linked to, their annual reports. A few firms are now approaching fully comprehensive outputs</li> </ul>	

# Typical work programme and implication for actuaries

Many insurers have set out structured multi-year programmes of work on climate and ESG...

➤ **So actuaries need to evolve their skillsets to remain relevant**

**2021 Programme**

**Strategy and vision, quick wins:**

- ▶ Become a leader on sustainability and meet reg expectations (PRA)
- ▶ Set insurer's expectations on ESG, net zero, and stewardship
- ▶ Prioritize climate action, net zero commitments
- ▶ Begin climate scenario analysis
- ▶ Building internal capability – including education and training



Implications for actuaries?

**2022 Programme**

**Moving forwards:**

- ▶ Detailed net zero transition plan and 2025 targets
- ▶ Scope 3 financed emissions calculations across balance sheet
- ▶ Become signatories of FRC Stewardship code
- ▶ Embed sustainability and stewardship capability
- ▶ Customer engagement
- ▶ Sustainable illiquid allocation
- ▶ Develop TCFD and Sustainability reporting



Implications for actuaries?

**2023 Programme**

**Achieving ambition:**

- ▶ Insure Co recognised for a leading insurer on sustainability
- ▶ Expand to cover full set of issues, eg emerging social concerns and biodiversity
- ▶ Full ESG integration, across asset classes, with ESG culturally embedded
- ▶ Extensive and transparent stewardship and engagement activities
- ▶ Transparent and comprehensive reporting
- ▶ Innovative digital customer engagement on ESG



Implications for actuaries?



# Questions?

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