Key themes: Sustainability opportunities and transition plans

We were delighted to host risk and sustainability professionals at our office on Ludgate Hill and facilitate a very engaged conversation about the practical challenges of embedding sustainability into business strategy.

We created a LinkedIn group for the Sustainability Risk Function to connect with like-minded individuals, encouraging them to share insights and feedback. Their contributions play a key role in shaping and growing the group.

Topic one. Embracing sustainability opportunities – how to drive innovation.

Beware of orphan products and incubators

Most attendees said that despite new solutions being attractive from a reputational perspective, it can be a slow and hard road. It was said that insurance history has been littered with great new ideas for products that end up as orphans as they simply don't reach critical mass. Capacity is too small to be relevant to buyers and diversification is hard without a strong demand. The group discussed the use of the Transition Class TCX in the Lloyd's market and confirmed chief executive and underwriting officers expect their organisations to focus on good underwriting that delivers a positive return on capital, rather than run risk transfer experiments. Carbon credit protection was one of the more promising areas, but still embryonic.

Modify existing solutions to new sectors

There was considerably more energy in the room in discussing adapting existing solutions (e.g Property, Casualty, Construction, E&O) to new sectors. Battery storage was an exciting area and the work of the CRO Forum on Energy Storage Systems and World Energy Outlook were commended. Several speakers reflected on the need to 'redefine energy insurance' to recognise transition to electric, hydrogen and other infrastructure as oil and gas investments fall back. In some cases, underwriters' knowledge and comfort with 'alternative energy' is limited and this is a brake on taking advantage of some opportunities.

Insurers are expected to provide risk transfer solutions for climate adaptation

Insurers are well placed through their core catastrophe risk modelling and underwriting to continue to support exposed communities to drive improvements in resilience, particularly in coastal areas. Asset owners invested in insurers expect these core stills to be deployed. Asset owners expect underwriters to adopt to transition and are increasingly engaging with firms that don't have credible transition plans.

Climate also impacts health, life and pensions

It was recognised that climate is not just a topic that impacts P&C insurers. Redefining protection gaps for life and health insurers is a growing issue. The effects of temperature change on morbidity and mortality are being carefully studied. Many populations are aging, and their savings and pensions needs will change at the same time as climate change is impacting the real economy into which these insurers invest.

Capture data including partnering with captive insurers

It was important to also come back to the core insurance and risk assessment expertise in targeting new risks. Understanding the drivers of loss and access to data were key. It is possible to partner with some large global clients to provide cover in support of their captive insurers and hence build understanding of risk exposure on a shared basis over time.

Topic two. Engaging with transition plans – for insurers and clients

The second topic of discussion focused on the practical challenges of insurers starting to articulate their transition plans. We also reflected on the findings of our transition plan survey.

Approaches vary

Approaches vary hugely, with reports ranging from a high-level summary of eight pages to a detailed exposition of 62 pages. Only 20% of firms surveyed at a draft report so most organisations have yet to engage. The UK has a best practice framework and listed Swiss companies are now required to report.

Start by deciding on your narrative

It was clear from the organisations that have drafted or published transition plans that the process can be time consuming. Spending time defining the storyline and being clear on which stakeholders the message is being targeted towards is valuable. Time spent on this up-front is a good investment and saves time later.

Business buy-in is still a work in progress for some

Although several organisations had strong executive sponsorship, for others getting internal buy-in from business leaders to the benefits of taking action remains a challenge when transition plans are perceived as another regulatory burden. Seeing it as part of ensuring a robust and viable strategy turns this around.

Don't let perfection get in the way of starting

The clear message from those who had been engaged with drafting plans was don't wait for more guidance. The Transition Plan Taskforce (TPT) guidance is a 'rich source' and is good in terms of being implementable. You don't need to do everything; you can build incrementally. Work top-down based on your narrative and avoid rabbit holes where you don't yet have the detail, or data simply does not exist yet.

Underwriting is a key building block

It is hard to have a credible transition plan as a re/insurer without having a good understanding of financed emissions, and particularly Insurance Associated Emissions (IAEs). Time spent understanding your baseline emission profile is important. Don't let data quality and completeness issues hold you back from making a start.

Setting targets is hard and means making tough trade-offs

There are some tough trade-offs to make round the c-suite table. Having a transition plan that makes sense for your business but still shows a credible path towards net zero requires negotiation and a clear understanding of key decisions on underwriting income in the short and medium term.

What is particularly challenging is marrying up a 20–30-year transition plan with the business planning cycle, typically operating over a three-five-year horizon. This is a strategic activity and not a compliance exercise. The business needs to make choices on where to focus and this needs to fit with each organisation's business model and strategy.

Be realistic and be credible. It is not a problem to recognise what the actual sphere of influence of an insurance organisation is within the real economy, and therefore the limitations on 'moving the value chain'.

Conclusion

Both parts of the meeting highlighted that making progress does not require perfect information or unlimited resources. What is important is to have strategic intent and ensure actions are aligned with business plans.

Start the conversation

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