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Themes from third Sustainability Risk Function (SRF) network roundtable discussion

Following a very lively and engaged conversation about the challenges of the increasingly complex sustainability reporting landscape and how to embed sustainability into the heart of underwriting, we drew out several themes and areas to explore in future meetings.

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. Sustainability reporting

Everyone recognised that the sustainability reporting landscape is being more complex. New reporting frameworks such as those issued by the International Sustainability Standards Board (IFRS S1 and S2), European Union (CSRD), as well as the UK Transition Plan Taskforce and Taskforce for Nature-related Financial Disclosures (TNFD) mean that approaches aligned to TCFD will need to be updated. We still await clarification of the U.S. SEC's approach currently. This has been recognised by many, including ClimateWise.

The group agreed there were two significant challenges facing insurers:

- **complexity:** insurance organisations are faced with multiple reporting expectations, where an international re/insurer can be regulated by over ten supervisors with varying reporting requirements. Being listed brings additional requirements, as do any voluntary commitments
- **speed of change:** the rapid evolution of requirements places significant burden on climate teams, forcing them to focus on short-term deadlines. This creates inefficient processes and resource utilisation and represents a major change management challenge.

There was a view that TCFD and now CSRD provide clear structures and enable the scope of sustainability to be clearly articulated and communicated to stakeholders. The feeling was that clarity remained to be brought to how the three 'super-power' frameworks (ISSB, CSRD and U.S. SEC) will interact, and this brings uncertainty in terms of how to prepare to navigate this landscape.

These multiple reporting frameworks create significant resource inefficiencies – and can mean climate risk teams are constantly on the back foot, responding to reporting deadlines. There were also concerns over insurance regulators each adopting their own local approach and the risk of regulatory over-reach into non-prudential areas.

Those organisations with the most mature reporting frameworks indicated a transfer of responsibility for disclosure processes, from the sustainability to the finance function, and an alignment to the processes and controls associated with financial disclosure. This ensured reporting processes became more robust and reproducible, whilst 'freeing' the sustainability function to drive change and embedding sustainability into decision making within the core business.

In conclusion, there was a feeling that understanding sustainability materiality (and double materiality) was important. This was central to how the CSRD requirements were being applied with organisations needing to report against those of the 12 standards that were evaluated as applicable, whilst being able to justify their materiality evaluation. **Materiality would therefore be a topic of a future discussion.**

Topic two. Responsible underwriting

Integrating sustainability into underwriting is a significant challenge for management. In our Important things Insurers need to know about Net Zero underwriting: The PCAF methodology article, we address some of the challenges, i.e., simply getting a baseline on an underwriting portfolio's "Insurance Associated Emissions" according to The Partnership for Carbon Accounting Financials (PCAF) methodology.

However, we asked 'how does underwriting play an effective role in delivering an insurance organisation's transition plans towards Net Zero?'

There was a clear variety of experience within the group, with only the larger global insurers having matured their approach to any extent yet. Even within these organisations a lot had been learned in terms of understanding the change management implications.

It was widely agreed that addressing sustainability within underwriting was more complex than adopting the ESG databases with the best coverage of your insured clients. There was a significant need for communication, engagement and education of the underwriting community. At an underwriting leadership level, it was important to focus on the business case and understand how the organisation could 'win' and continue to be profitable by recognising sustainability-related trends. It was important to make the case that embracing sustainability did not mean writing less business, rather was more about shaping the underwriting portfolio to be resilient into the future.

Examples that were given were, understand the impact of energy transition (such as electrification or switching to renewables) on the risk profile of insureds and hence the recreation of new risk transfer needs. There was significant scepticism about the creation of 'green products'. The insurance industry was littered with failed orphan products that did not gain market-wide or reinsurer support. The consensus was that repurposed insurance solutions focused on new and emerging market niches that were likely to be more successful.

It was also recognised that these challenges were not unique to Property and Casualty insurers but also applied to Life, Health and Pensions providers. If industries were being restructured, those made redundant would need income protection and retraining opportunities. Those providing lifetime mortgages would need to consider the impact of flooding or subsidence on the value of their residual value portfolios.

Many organisations were at a cross-road in their evaluation of PCAF and the implications of insurance-associated emission (IAE) calculations. There was a strong desire to be well informed about the consequences and to buy time to make portfolio decisions, but less appetite to disclose information until regulations drove a level playing field in this regard.

More work was being done to explore scenarios and how these could be used to shape underwriting portfolios. Some insurers had started to share the carbon intensity of portions of their portfolios with senior management and underwriters to help educate and guide decision making. Looking at the carbon intensity (emissions / premium) for different sectors and lines of business was instructive and moved organisations in the direction of carbon budgets and carbon allocation. Again, the nuance of how this was positioned was important to encourage decision making and growth and not to imply a declining risk appetite.

The session finished on an interesting debate about how to facilitate the embedding of sustainability within underwriting and whether this could be effectively done from the outside-in by a sustainability function working with underwriting leadership. Be felt that the next meeting could helpfully debate the value of having a Head of Responsible Underwriting, and the pros and cons of such an appointment. Analogies were drawn to first-line risk teams (Line 1.5) being used as a translation and implementation layer in many larger organisations to drive risk culture. Perhaps sustainability culture required this type of role, even if temporarily?

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Start the conversation

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