TCFD: How are UK and European insurers faring?

Willis Towers Watson TCFD Pulse Survey – Volume 2

October 2021

Willis Towers Watson

In the second of Willis Towers Watson's ongoing series of surveys looking at companies' readiness to make climate risk disclosures under the Task Force on Climate-related Financial Disclosures (TCFD) framework, we turned the focus on insurers – who are increasingly in the front line of regulatory scrutiny on climate issues.

Survey highlights

So how are insurers doing? Some of the most notable findings from responses to the survey from a range of UK and European insurers, from mutuals to Lloyd's syndicates, include:

A large majority of insurers have not advanced far or at all in preparing for TCFD. Larger insurers, unsurprisingly, tend to be among those that have already disclosed or are close to doing so.

74% have either not discussed TCFD reporting or are in the early stages of discussions.

88% say the Solvency II ORSA is currently their main vehicle for presentation of climate risks, followed by annual financial statements.

Companies are adapting to the need to treat climate change as a strategic issue.

33% state that climate change is seen as a strategic issue and a further **40%** manage it as a financial risk.

49% have an individual or a group of people dedicated to climate/ Environment, Social, Governance (ESG)-related work.

However, insurers are focusing most of their attention on the impact of climate on the asset side of the balance sheet to the detriment of a more integrated risk management approach.

Investments are the main focus of climate analysis for **69%** of insurers, although over half say they have considered scenario analysis on both assets and liabilities.

Only **9%** of the insurers surveyed have fully embedded climate change related risks into their business as usual risk framework.

Common challenges cited are consistent with our previous survey.

72% say difficulties with quantifying climate risk are their main cause of concern, exacerbated by what they see as a lack of suitable data.

40% say they are struggling with a lack of internal prioritisation and resourcing.

Background

What is TCFD?

- The financial stability board established the TCFD in 2015 to develop recommendations for more effective climate-related disclosures, supporting companies to incorporate climate-related risks and opportunities into their risk management.
- The initiative supports all sectors, but the financial industry has been fast tracked.

TCFD develops recommendations in four thematic areas that are applicable to organisations across sectors and jurisdictions, promoting transparency and financial stability.

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

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.

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

Metrics and targets
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Since we published the results of our first TCFD pulse survey in the final quarter of 2020, the pressure on all companies, but banks, insurers and other financial services organisations in particular, to understand and disclose the physical climate and transition risks they face to stakeholders has continued to rise

Ahead of what is expected to be a landmark United Nations Climate Change Conference (COP 26) in Glasgow, UK in November, financial regulatory bodies across the UK and Europe and others have recently been busy in reinforcing the importance they attach to addressing climate risk.

Announcements have included:

- Confirmation from the UK Financial Conduct Authority (FCA) that UK premium listed insurers will be required to implement TCFD on a 'comply or explain' basis from 2022.
- A call from leaders attending the G7 Conference in June 2021 to mandate climate disclosures based on the TCFD framework.
- The European Insurance and Occupational Pensions Authority (EIOPA) has asked national regulators to include climate risks in the Solvency II Own Risk Solvency Assessment (ORSA) and is consulting on integrating them into the Standard Formula.
- From January 2022, insurers operating in the European Economic Area will have to meet the Sustainable Finance Disclosure Regulation (SFDR) requirements.
- In the UK, the Prudential Regulation Authority (PRA) has requested that insurers should have "fully embedded their approaches to managing climate-related financial risks by the end of 2021"
- The UK joint regulator and government TCFD Taskforce has signalled TCFD-aligned disclosures will be mandatory across the economy by 2025.

The common thread in most of these initiatives, even when TCFD is not mentioned specifically, is that many of them are moving towards convergence with TCFD. And the number of TCFD supporters continues to grow. As of August 2021, the TCFD website said the framework had over 2300 supporters in 88 countries.

All told, there seems little cause to doubt that, certainly for insurers and other financial institutions across most of Europe, TCFD reporting will be an essential climate risk disclosure tool and benchmark for regulators, investors and other stakeholders.

Summary findings

Delving into the survey results further, we can explore the survey highlights in more detail.

Many insurers are still sitting on the TCFD fence

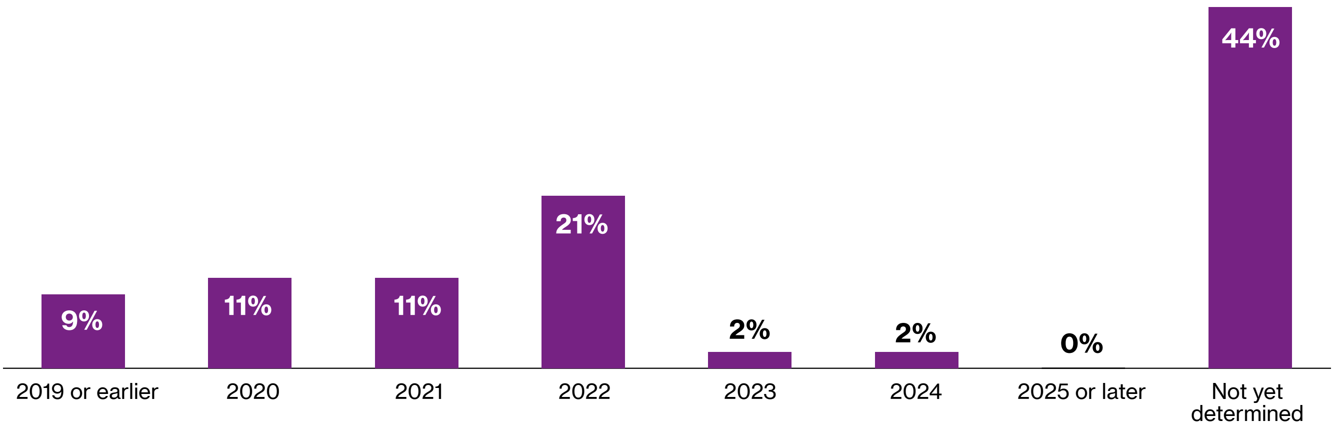
Roughly one in six carriers (16%) have completed their TCFD submission and another 10% are in the process of preparing their report. On the other hand, nearly half (44%) of the carriers surveyed have not yet disclosed and have had only limited discussions to date. Breaking this down into the core elements of the TCFD framework as outlined above, progress is also mixed.

1. **Governance:** Board oversight of TCFD and management's role in assessing and managing climate-related risks and opportunities are either to be published due to some pending work or have already been disclosed.
2. **Strategy:** More than half of the insurers surveyed say disclosures related to strategy are under review or they intend to disclose their strategy over climate-related risks, opportunities and resilience but are held back due to further work.
3. **Risk management:** Insurers are at different stages of risk management preparedness, with some waiting to publish after completion of more work, others undergoing review and a few having disclosed already.
4. **Metrics and targets:** Insurers are either reviewing or intending to disclose their metrics and targets pertaining to scope 1, 2 and 3 greenhouse gas emissions and the related risks.

At present for those who either plan to disclose or have submitted information, ORSA and annual statements are the primary means used to publish climate/ESG-related information.

For nearly half (44%) of the carriers surveyed, the date of publishing TCFD aligned disclosure is not fixed, while around one-fifth (21%) are aiming to publish next year (*Figure 1*). While perhaps a reflection of the recent strong regulatory push for better climate risk disclosure, insurers currently see regulators as the primary target audience for TCFD disclosures. Two thirds of respondents regard them as high priority compared with the 28% and 25% respectively that rate customers and investors similarly.

Figure 1. **Actual or anticipated date of publication of first TCFD-aligned disclosure**



Time to treat climate risk as enterprise risk

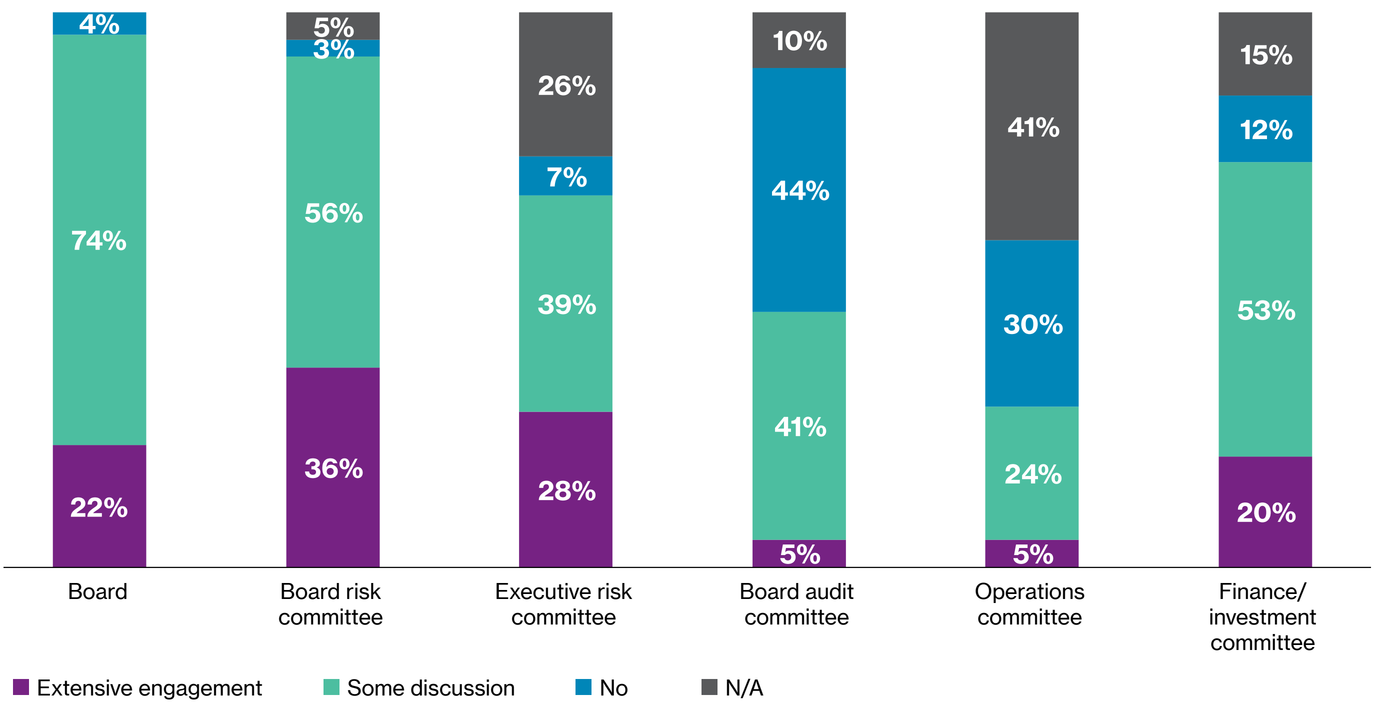
On an encouraging note, over half (51%) of the insurers surveyed have an established climate steering group; climate change is addressed either as a financial risk or is perceived as a key strategic issue in most cases – few relegate it to a sustainability agenda.

Just under half (49%) of companies have an individual or a group dedicated to climate/ESG work, although that still leaves a majority who either haven't decided how to go about TCFD or are relying on an individual to combine work in this area with another day job.

Beyond the day-to-day, senior level responsibility for leading the response to the financial risks and opportunities arising from climate change most frequently sits with the chief risk officer or equivalent role. However, 19% of surveyed insurers have entrusted this role to the chief executive officer. The most popular senior forum for the discussion of the financial impact of climate risk has been the Board Risk Committee (*Figure 2*) with physical climate and reputational risks typically seen as the most material.

Given the perceptions of the financial materiality of climate-related risks, one interesting footnote is that 65% of those surveyed say they have no plans to include climate-related metrics in remuneration policy. By way of comparison, 47% of the non-financial companies in our first TCFD pulse survey said the same.

Figure 2. **Where do senior level discussions of the impact of climate change on the business take place?**



A lack of a full balance sheet approach to climate risks and opportunities

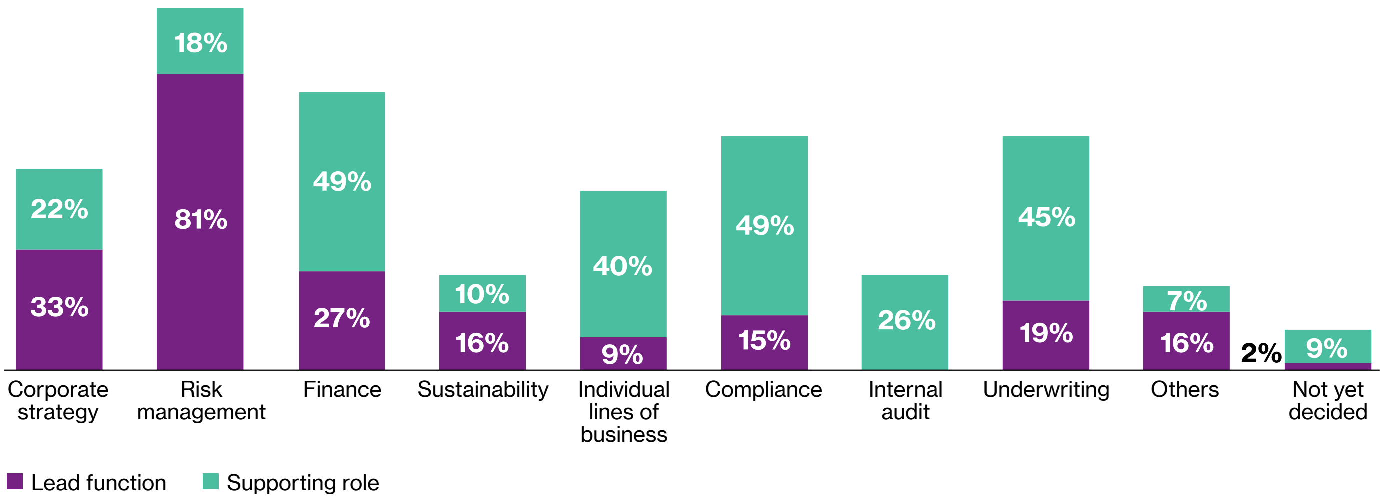
The central theme of a recently published joint paper by Willis Towers Watson and Wellington Management entitled *'The journey to net zero: An insurer's guide to navigating climate risks and opportunities'* emphasised what we have advocated in previous articles – that insurers should take an integrated cross-balance sheet approach.

This survey suggests, however, that many insurers are still in the traditional mode of associating climate risk mainly with assets and investments and less so with liabilities.

Nearly 70% see investments as the focal point for TCFD in 2021, compared with 49% who are considering it through an underwriting lens. Nonetheless, there are encouraging signs in that 58% of companies report that they have considered scenario analyses for both assets and liabilities.

Furthermore, companies report that a wide range of business functions from Underwriting to Corporate Strategy are now involved in working on climate-related financial risks and opportunities, with Risk Management being in a lead role in 81% of surveyed organisations (*Figure 3*). Compared with the 9% of insurers surveyed that say climate-related factors are fully embedded into the business as usual risk framework, this rather illustrates how much more there is to do for most insurers to assess and treat climate risk strategically and holistically as an enterprise risk.

Figure 3. **Corporate functions involved in responding to climate-related risks and opportunities**



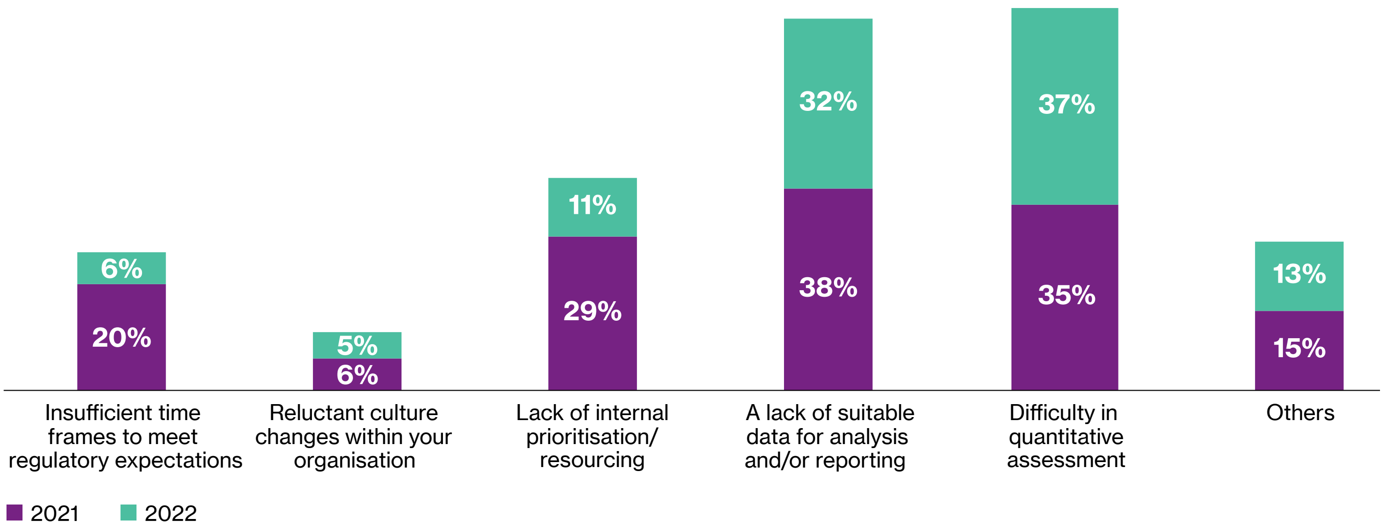
Common challenges

The most pressing challenges of preparing for TCFD reporting and other climate-related disclosures cited by insurers are broadly consistent with those of the cross-sector sample of the first pulse survey.

Lack of specific knowledge and expert resources to help quantify risks and opportunities and uncertainty about the type and sources of data that can help with the task are the clear front runners among insurers' perceived obstacles to completing a TCFD report through the end of 2022 (*Figure 4*). Internal prioritisation also seems to be an issue in some cases, as are concerns about the timeframes involved in meeting mounting regulatory expectations.

Insurers also share similar views to those involved in the first survey about where they are most likely to need external support. Scenario modelling (47%), the choice of metrics and targets (36%) and guidance on the TCFD approach and reporting requirements (33%) top the list of skills and services they anticipate they will need to buy in.

Figure 4. **Main obstacles that insurers believe they face when competing a TCFD report**



Willis Towers Watson's TCFD Pulse Surveys – open to new participants

Willis Towers Watson's Climate and Resilience Hub helps organisations manage their climate-related risks and seize the opportunities of an orderly transition to a low carbon, resilient economy.

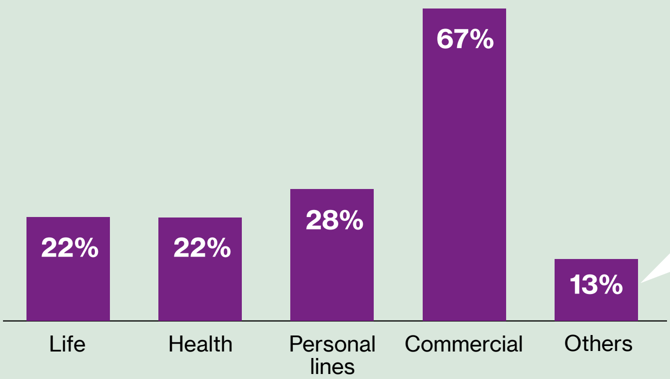
Building on our long-standing survey and benchmarking expertise in areas such as executive compensation, rewards and benefits, the Hub is working closely with corporates, financial institutions, regulators and other stakeholders around the world to provide practical insights into a rapidly evolving policy landscape and emerging practice on climate-related issues.

As part of this, the TCFD Pulse Survey seeks to complement existing initiatives examining the status of disclosures by understanding companies' readiness and intentions to report on TCFD. This second edition focused on the insurance industry and was conducted online during the second quarter of 2021.

Participants included companies in the UK and continental Europe, including several members of the London Market Association and the Association for Financial Mutuals. The business mix of the participating companies is shown in *Figure 5* below. Sixteen percent of respondents came from listed companies; 84% unlisted. The gross written premiums of the companies range from under £100 million (32% of sample) to over £1 billion (26% of sample). Companies that participated received a more detailed report allowing benchmarking of responses.

Please contact us if you would like to participate in the future.

Figure 5. **Business mix of insurers participating in TCFD pulse survey 2**



- Discretionary benefits – insurance element almost negligible
- Employee benefits, mutual funds, wholesale solutions
- Income protection
- Insurance-based investment products
- Non-life run off
- Professional indemnity
- Reinsurance treaty
- Specialty casualty

If you would like to discuss the survey findings or to understand more about TCFD and its implications for your business, please contact:

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About Willis Towers Watson

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