Climate change:
How insurers can make a difference

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Insurance POST

Kennedys

The insurance industry's fortunes are tied tightly to the story of climate change, and it is already showing its ability to affect this narrative in a hugely positive way.

Kennedys, in association with Insurance Post, canvassed opinions from over 100 key influencers across the UK insurance sector to get views on how it can build on its existing environmental work and deliver the most beneficial impact going forward.

In addition to getting the mood of the market, the research also showed how quickly insurers will need to keep evolving in this area to stay abreast of the changing requirements of their corporate clients.

Willing and able to make a difference

The industry has a seminal role to play in driving positive environmental change. Indeed, 80% of those questioned believed the industry had either an 'important' or 'very important' part to play in helping to reduce greenhouse gas emissions to net zero by 2050.

This view is echoed by the Association of British Insurers (ABI). It is similarly bullish about the sector's appetite and ability to make positive change at both a national and international level.

Huw Evans, director general at the trade association, said:

> “Insurers are at the forefront of dealing with the impact climate change has on communities and infrastructure all over the world. They want, and need, to be part of the solution.”

He added: “The biggest thing the industry can do is to use its sizeable investment portfolios to move funding away from things that are polluting the planet and into greener initiatives.”

To put the size of these portfolios into context, the ABI says the UK's insurers hold over £1.8tn in invested assets. Currently, over 1.2% of all assets under management in the UK are invested in environmental, social and governance (ESG) assets such as renewable energy.

As insurers increase the proportion of funds invested in ESG assets, they will further grow the positive impact they are making through the billions of pounds they have already committed to such investments.

The research found that those working within insurance agree that where and how insurers invest their portfolios will be their most effective tool in driving the reduction of greenhouse gas emissions.

The second most effective strategy highlighted in the research was withdrawing capacity from carbon-heavy sectors, which a number of insurers have already done and continue to do so.

But until this approach gains a critical mass, there will always be a market for the biggest polluters to secure the cover they need. Even where insurance is not available in traditional terms, captive and self-insurance options will remain on the table.

Legislating for change

Governments may have the power to legislate against certain commercial activities, but they also have a responsibility to maintain social cohesion and help carbon-reliant workforces and communities to transition to new models.

As the insurance industry structures its own efforts and establishes how best to work with regulators, legislators and other commercial sectors, the research suggests it could also develop the education and publicity surrounding its ongoing work which we are currently seeing.

The more carriers can develop, promote and implement their green agendas, the faster they will build momentum behind the drive to net zero emissions.

They will also find, as the research shows, that making climate change and sustainability a priority will play out well with corporate clients and consumers in the coming years.

COP26 (November 2021)

In the run up to COP26, insurers must continue to address the issues raised in this survey to help corporate clients build a sustainable business and to deliver sustainable solutions to consumers.

Survey responses and key findings

1. Rank the below six sectors in terms of how influential their initiatives and commitment to reducing greenhouse gas emissions to net zero by 2050, as proposed by the UK Government.

(1 - most influential, 2 - 2nd most influential, 3 - 3rd most influential)

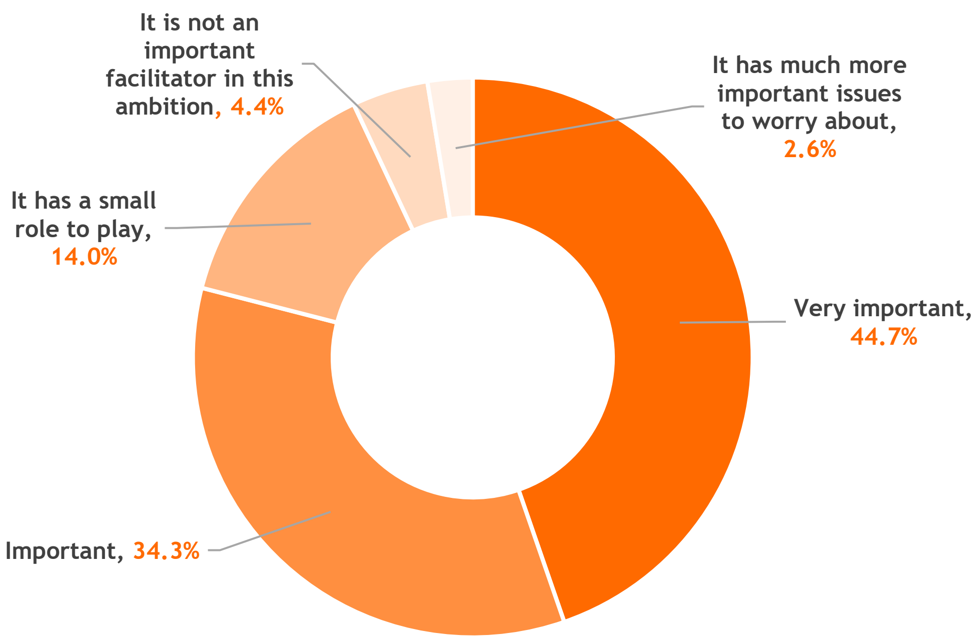
Rank	Item	Rank	Item
1	Energy and construction	4	Financial sector
2	Transportation	5	Insurance
3	Manufacturing	6	Legal

Findings

The top three sectors listed all have a well-publicised connection to many carbon-heavy activities and so there are certainly some significant environmental wins to make in these areas.

Interestingly the insurance industry only ranked itself as fifth out of six for the influence its commitment has to reducing greenhouse gas emissions to net zero by 2050 and for the influence of all the initiatives it is developing to achieve that target.

2. How important do you see the insurance industry's role in helping reduce greenhouse gas emissions to net zero by 2050, as proposed by the UK Government?



Findings

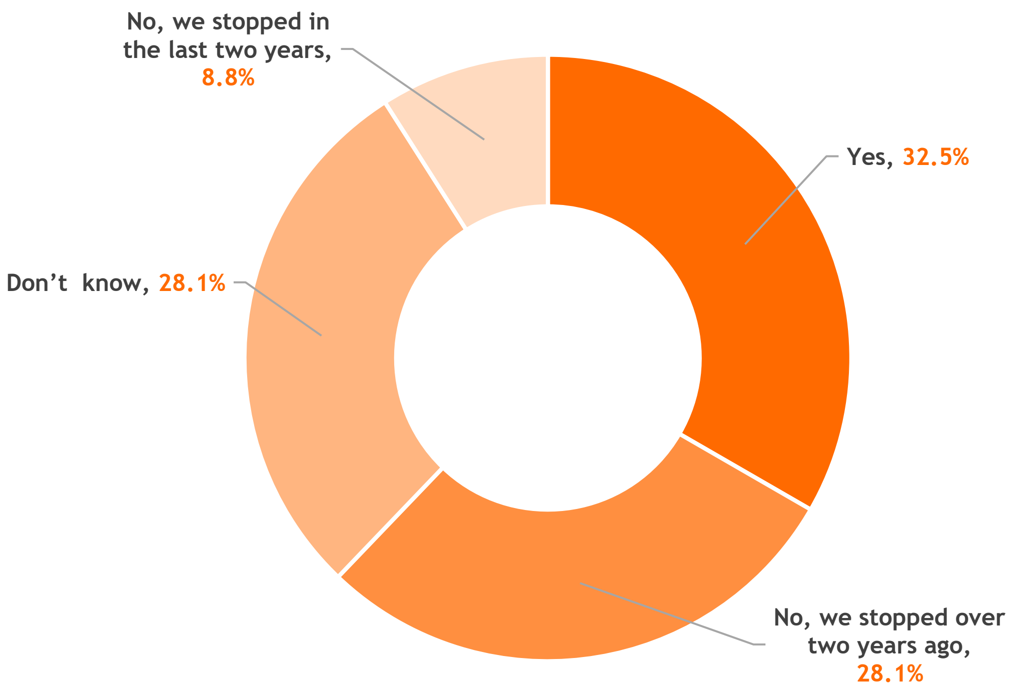
78.9% of the insurance market thinks it either has an ‘important’ or ‘very important’ role to play in moving towards the 2050 net zero target. The response to Q1, which questions the influence of the insurance industry’s commitment and initiatives to achieve this suggests a disconnect between the market’s potential to make change and its efforts to make it actually happen. Addressing this mis-match will help generate positive forward momentum.

3. To the best of your knowledge, does your employer underwrite the construction and/or operation of:

a) New coal-fired – or other carbon heavy fossil fuel – plants

b) Oil and gas companies

c) Other industries which are heavy emitters of greenhouse gases



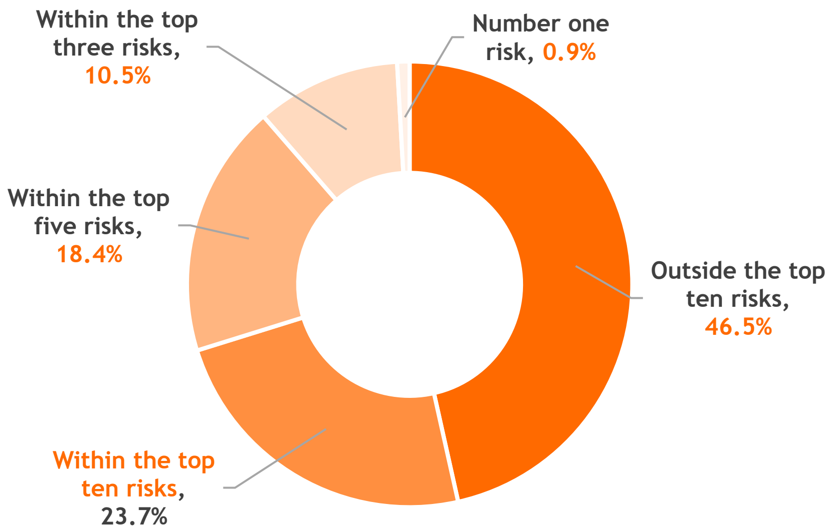
Findings

Two out of five insurers have already stopped underwriting the construction and operation of many heavy carbon emitters. Virtually a third (32.5%) of those asked said they still underwrite these risks.

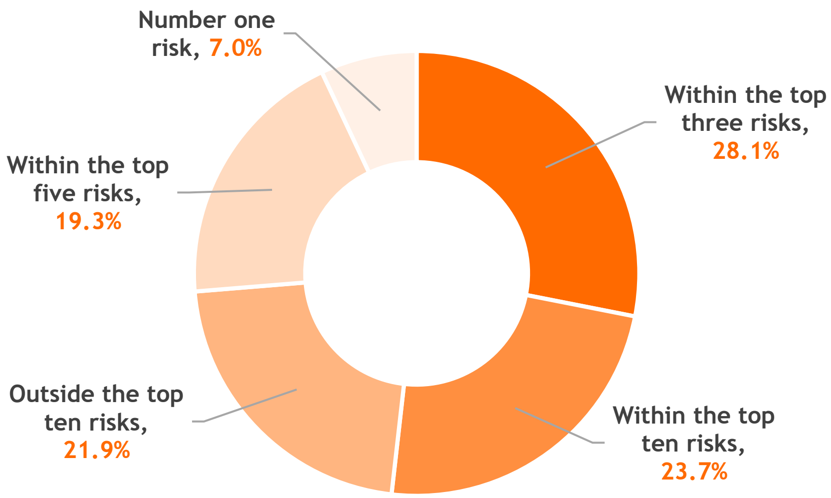
More than a quarter (28.1%) said they did not know if their company still offered cover in these areas. As the industry better promotes its green agenda there will be less people who are unsure about their company’s underwriting stance. In addition, there will be fewer options for these companies to secure cover.

4. In terms of your employer's risk register, where do you think reducing the global gas emissions/carbon footprint as a response to climate change risks ranks/ranked?

Three years ago



Now



Findings

Fewer than a third of those surveyed (29.8%) said that reducing global gas emissions was a top-five risk on their company's risk register three years ago. Today, the research shows that figure has jumped to more than half (54.4%).

The potential impact of climate change is quickly becoming apparent in terms of the impact it can have on the insurance market. International initiatives such as COP26 hosted by Glasgow in 2021, the government's green initiatives and the continued efforts of climate influencers will add weight to the momentum that is building for bold action and wholesale change.

5. On a scale of 1 to 5, how do you rate each of the following strategies in terms of helping to reduce greenhouse gas emissions?

(1 - not effective, 5 - very effective)

Rank	Item
1	Withdrawing investment in businesses associated with the construction and/or operation of coal-fired, other carbon heavy fossil fuel plants or other industries which are heavy emitters of greenhouse gases
2	Withdrawing capacity for construction and/or operation of coal-fired, other carbon heavy fossil fuel plants or other industries which are heavy emitters of greenhouse gases
3	Putting pressure on the insurer's supply chain to commit to a prescribed 'green' criteria
4	Consumer demand for their insurer to take an increasing social role
5	Offering new schemes and products as incentivisation to help provide insurance to those that demonstrate a commitment to reducing their carbon footprint
6	Through internal staff-led initiatives designed to raise awareness and champion the climate cause, such as through recycling and cutting travel

Findings

Money talks and the insurance industry said how it allocated its investment portfolio was the biggest lever it had to pull in the fight to reduce greenhouse gas emissions. Not far behind was its ability to withdraw capacity and refuse to cover certain sectors.

6. Which of these underwriting strategies do you think is the most effective way that insurers can help reduce the carbon footprint? Please select and rank THREE of the below options in order of effectiveness.

(Select and rank three of the below options in order of effectiveness. 1 - most effective, 2 - 2nd most effective, 3 - 3rd most effective)

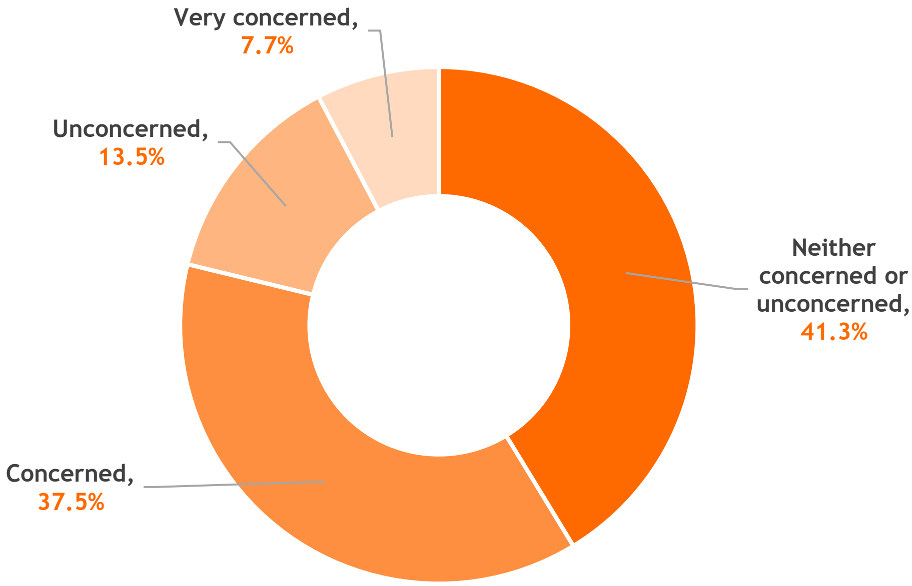
Rank	Item
1	Withdrawing underwriting capacity for construction and operation of (a) new coalfired – or (b) other carbon heavy fossil fuel - plants or (c) oil and gas companies or (d) other industries which are heavy emitters of greenhouse gases
2	Offer more competitive rates to incentivise the design, construction and operation of new green energy in the developed world
3	Withdrawing underwriting capacity for the operation of (a) existing coal-fired – or (b) other carbon heavy fossil fuel - plants or (c) oil and gas companies or (d) other industries which are heavy emitters of greenhouse gases
4	Offer more competitive rates to incentivise the use of clean coal technology

Findings

Rather than simply withdraw cover for carbon heavy activities, the research found that insurers preferred a more circumspect approach. The industry said withdrawing cover from the construction and operation of new plants was preferable to stopping insuring existing plants.

How long existing plants are supported and the speed at which they can be transitioned to greener energies and operating models will have a major impact on their carbon footprint. Available insurance (or lack of) could have the power to speed up this transition.

7. By withdrawing underwriting capacity for coal-fired, other carbon heavy fossil fuel plants or other industries which are heavy emitters of greenhouse gases, how concerned are you that the impacted businesses will simply self- insure?



Findings

A total of 45.2% of the insurance sector said it was ‘concerned’ or ‘very concerned’ that heavy carbon emitting industries would choose to self-insure. The question shows there are other options on the table for companies that need cover and that to move quickly towards the 2050 net zero target, both concerted and co-ordinated action is required by regulators and legislators, as well as those, such as insurers, who facilitate commercial activity.

8. What do you think are the biggest drivers for insurers to withdraw or reduce their exposure to businesses associated with or involved in the construction/ operation of coal-fired, other carbon heavy fossil fuel - plants or other industries which are heavy emitters of greenhouse gases?

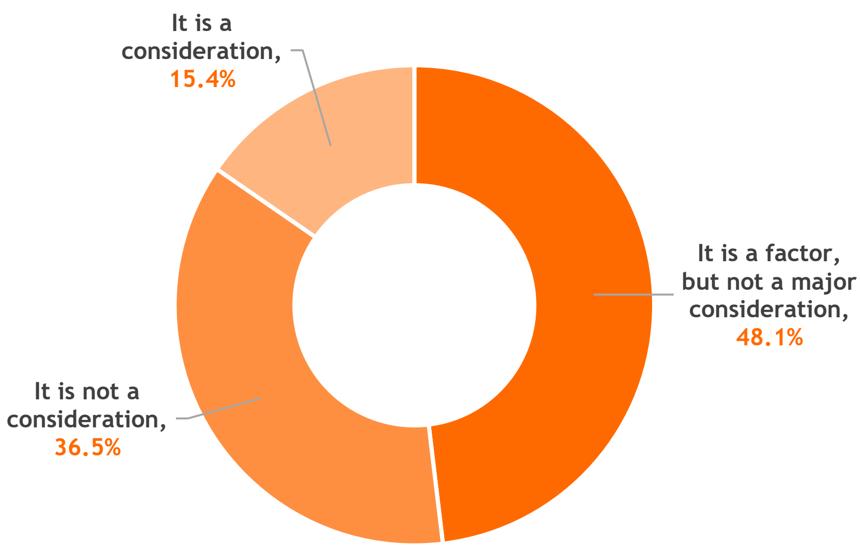
(Select and rank three of the below options in order of importance: 1 - biggest driver, 2 - 2nd biggest driver, 3 - 3rd biggest driver)

Rank	Item	Rank	Item
1	Consumer demand for their insurer to take an increasing social role	4	Internal industry reputation
2	Political/regulatory forces	5	Staff recruitment and retention
3	External industry reputation		

Findings

The court of public opinion is very powerful and consumer demand came out on top as the biggest pressure on insurers to take a more social outlook on their operations. The increasing importance of climate change for regulators and legislators was reflected in the fact that these forces were seen as the second biggest drivers on insurers changing their agendas. While currently the ability to attract talent is a low driver, this may rise in the future list of priorities on insurers' board's agenda as this conversation progresses.

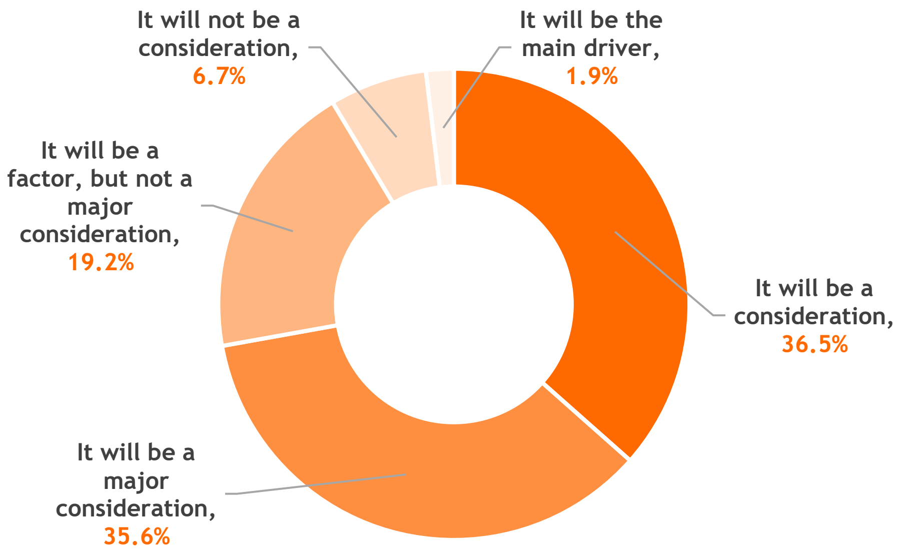
9. To what extent do you think corporate clients currently consider the insurer's position on climate change when placing insurance?



Findings

While the research focused on insurers, it appears other commercial companies have yet to prioritise climate change in their supply chains or at least vocalise their position to insurers. The survey found that only 15.4% of those asked believed an insurer's position on climate change was a consideration when buying cover. For more than a third (36.5%), it was not a consideration, although things are set to change significantly over the next decade, as shown in the response to the following question.

10. To what extent do you think corporate clients will consider the insurer's position on climate change when placing insurance in ten years' time?



Findings

The research highlighted just how quickly the insurance industry will have to adapt to meet the changing demands and priorities of its corporate clients. In ten years' time just 6.7% said an insurer's position on climate change would not be a factor for corporate clients when placing cover.

This was down from the 36.5% who said it was not an issue for corporate clients today. Some (1.9%) said it would be the main driver in a decade, while more than a third (35.6%) believed it would be a major consideration. The research highlights the speed and ongoing nature of change the insurance industry is facing in terms of its clients' priorities.

11. During the COVID-19 lockdown, global daily carbon dioxide emissions dropped significantly when compared with the yearly average. The decrease during April alone equated to a reduction of approximately 17 million tonnes of CO_2 per day.

How would you rate these sectors in terms of their contribution to the CO_2 saving during the lockdown?

(Select and rank the below six sectors based on their contribution. 1 - most significant contribution 6 - least significant contribution)

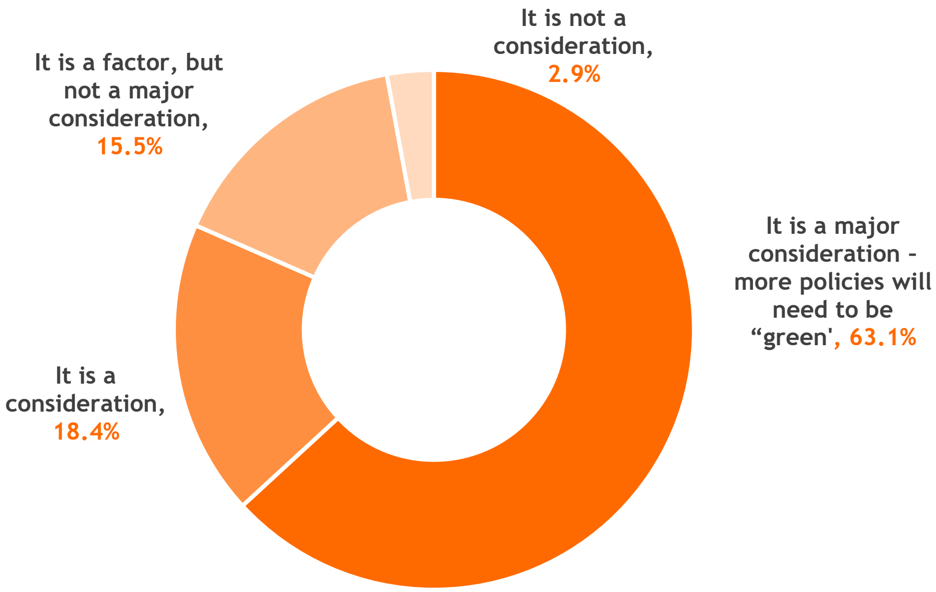
Rank	Item	Rank	Item
1	Aviation	4	Power
2	Transport (surface and marine)	5	Public sector
3	Manufacturing industry	6	Residential

Findings

The aviation sector was seen as the biggest contributor to the reduction in CO_2 emissions during lockdown. In second place was surface and marine transport, highlighting the importance of finding greener ways to move people and goods about in the future. The sharp and swift reduction in emissions shows the significant impact that changed behaviours can have.

12. In the aftermath of the global financial crisis, only 16% of the financial crisis recovery policies implemented were ‘green’ and in 2010 global emissions increased by almost 6% as fiscal recovery plans were implemented globally.

To what extent do you think ‘green’ policies should be considered as part of the current fiscal recovery plans?



Findings

Almost two-thirds (63.1%) of the people spoken to thought ‘green’ policies should be considered as part of the fiscal recovery plans for the coronavirus pandemic. The question for insurers and the wider population, is what can be done about the almost one in five (18.4%) who thought green policies were a minor factor at best in these considerations.

This question, like others in the research, shows that while there is a swelling tide in favour of prioritising action against heavy carbon emitters, there is still a significant minority who struggle to put the planet’s health at the core of their thinking.

13. Are there any other climate change considerations you think that your employer should be taking into account as a financial institution and generally?

There was no shortage of views on additional environmental considerations which financial services employers should be thinking about.

1. Performance

COVID-19 has shown that the insurance market can work remotely and certainly become a lot more agile and environmentally friendly in its operating models. Survey respondents believed new ways of working could help the sector improve its environmental performance:

"Reduce commuting by encouraging flexible working."

"Greater use of technology and online systems."

"Take advantage of technology to limit business travel and office space."

2. Practices

There was support to withdraw capacity from fossil fuels and industries which harm the environment, and to work on new insurance products to support greener technologies and practices:

"More investment in ‘green’ projects and encouraging the underwriting of more ‘green’ risks."

"Business travel - either cutting back, investing in green air fuels or carbon offsetting. Capacity must be withdrawn for environmentally impactful activities."

"Complete divestment from fossil fuels and harmful extractives."

"Creating or updating products for green technologies."

3. Decisions

The underlying theme was that not prioritising a green agenda comes at an increasing cost and that it is time to make the environment a central consideration in underwriting, risk management and portfolio investment decisions:

"Consider risk appetite."

"Businesses need a broad approach, such as considering their operational impact."

"Reputation, and ensure the true cost of risk is understood so risks can be managed."

4. Collaboration

There was also a sense that the industry should speed up the work it is already doing in this area, so that it can stay ahead of changing customer demand and really show itself to be a leader in this field:

"Use our platform to publicise the green agenda better." "Make it easier for clients to make the energy transition." "Long term economic and social sustainability."

"Support climate change infrastructure innovation."

Further information

To find out more about our services and expertise, and key contacts, go to: kennedyslaw.com/climate-change

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