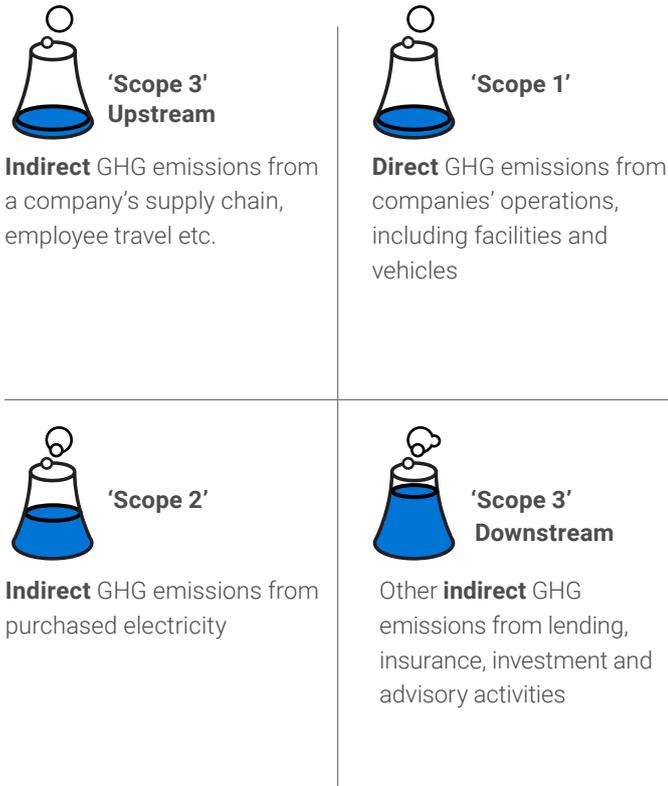


# Net zero: banks and insurance

To prevent dangerous climate change, greenhouse gas emissions must reach net zero. What do **banks and insurers** need to do?

**48%** of global financial assets are in banking and insurance, with significant climate impact through their associated emissions

## Sources of emissions

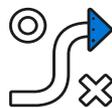


 Source: FSB (2021), data as at end-2018



## Challenges

- Data and compatibility with risk frameworks
- Mismatch of timings, incentives, maturity of investments
- Regulatory divergence and competing priorities
- Political and counterparty risk
- Fungible, fragmented sources of capital



## Opportunities

- Anticipating - and benefiting from - future policy and regulatory action on climate
- Growth in demand for sustainable banking and insurance products
- Improved reputation and stronger relationships with customers/ governments

## Companies

## Governments

| Key levers   | Key policies  |
|--|---|
| <ul style="list-style-type: none"> <li>Transitioning away from financing/underwriting high-carbon activities</li> <li>Building climate considerations into risk management frameworks to reduce and reprice carbon exposure</li> <li>Increasing intermediation of capital into low - carbon activities</li> <li>Climate-supportive products and advisory services; customer education</li> </ul> | <ul style="list-style-type: none"> <li>Carbon pricing</li> <li>Capital requirements and stress-testing aligned with rising carbon risks</li> <li>Use of incentives/subsidies to scale up sustainable products and activities</li> <li>Mandatory climate change disclosures</li> </ul> |



## Other environmental considerations

Pollution and impacts on biodiversity associated with financed activities

## Social impacts and the 'just transition'

Access to finance linked to economic development; increased need to finance emerging markets and technologies

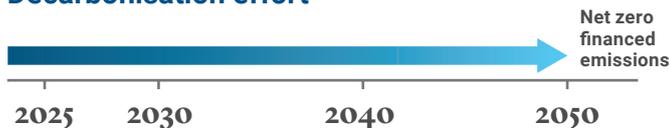
Ending financing in certain sectors creates risk of job losses

## Physical risk impacts

Highest direct risks in property investments and insurance

Indirect climate impacts on demographics and insurance liabilities

## Decarbonisation effort



### Easier to achieve

Transitioning away from projects/underwriting/potential clients that are misaligned with the global direction of travel

Climate risk disclosure

Financing/intermediating low-carbon upgrades to existing and new infrastructure

### Possible with effort

Changing the risk profile of 'green' vs 'non-green' financial activities

Large-scale adoption of climate-friendly products and services

## What is needed?



### Company leadership

Alignment of investments/financing with net-zero global trajectory, with targets for financed emissions increasing in stringency over time



### Research and innovation

Investment innovations to allow capital flows at scale into low-carbon, including collaboration with regulators and development agencies



### Consumer behaviour

Growing market for 'green' financial products

**LGIM will vote and implement investment sanctions against companies falling short of our climate expectations.**

## How are we assessing companies' pathways to net zero?

|                            |   |
|----------------------------|---|
| <b>Net-zero commitment</b> | <ul style="list-style-type: none"> <li>Does the company have a net-zero target for its investments?</li> <li>Has the company disclosed a net-zero transition plan including interim targets?</li> </ul>   |
| <b>Strategy</b>            | <ul style="list-style-type: none"> <li>Evidence the company is integrating climate change into its risk frameworks and analysing the impact on its portfolios?</li> <li>Evidence of the company reducing involvement in fossil fuels?</li> <li>Evidence of policies to cover high-emitting sectors in addition to thermal coal, e.g. deforestation?</li> </ul>  |
| <b>Resilience</b>          | <ul style="list-style-type: none"> <li>Resilience of portfolio in – and alignment to – climate scenarios?</li> </ul>  |
| <b>Targets</b>             | <ul style="list-style-type: none"> <li>Targets to grow revenue relating to 'green' financial products and services where there is clear alignment with existing business model</li> </ul>   |
| <b>Collaboration</b>       | <ul style="list-style-type: none"> <li>Evidence of the company working collaboratively across its value chain, particularly with clients, to address climate finance challenges? E.g. by taking steps to support hard-to-abate sectors to decarbonise, and investing in climate solutions including nature-based solutions?</li> <li>Evidence of the company advocating for meaningful policy action (e.g. carbon pricing)</li> </ul> |
| <b>Red lines</b>           | <ul style="list-style-type: none"> <li>Does the company have restrictions around underwriting/investing in thermal coal?</li> <li>Does the company disclose Scope 3 emissions associated with its investments?</li> </ul>   |

## For more information...

Please see: [https://www.lgim.com/landg-assets/lgim/\\_document-library/responsible-investing/climate-impact-pledge-brochure-uk-eu-2021.pdf](https://www.lgim.com/landg-assets/lgim/_document-library/responsible-investing/climate-impact-pledge-brochure-uk-eu-2021.pdf)

### Important information

**Source: LGIM as at September 2021. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested. The above information does not constitute a recommendation to buy or sell any security**

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