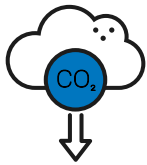


# Net zero: Insurance

48% of global financial assets are in banking and insurance, which have a significant climate impact through their associated emissions.<sup>1</sup> What does the **insurance sector** need to do to reach net zero?

**LGIM will vote and implement investment sanctions against companies falling short of our climate expectations. LGIM expects companies' boards to oversee and publicly disclose answers to the following:**



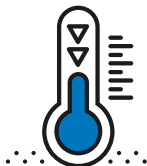
## Net-zero commitment

- Does the company have a comprehensive target for net zero by 2050 or earlier, covering scopes 1, 2 and material scope 3, including insurance-associated and financed emissions?<sup>2</sup>
- Has the company made a commitment to certify/certified this target with the SBTi or other external independent parties as they develop?
- Does the company have a net-zero transition plan that includes short- and medium-term targets?<sup>3</sup>



## Strategy

- What are the explicit criteria for restricting financing to non-1.5°C-aligned activities, including the underwriting and financing of thermal coal, oil, gas and deforestation activities?
- To what extent is the company providing insurance, reinsurance and finance for climate solutions and products and services to accelerate the decarbonisation of hard-to-abate sectors?
- Is executive remuneration aligned with the company's short- and/or medium-term emission targets, as set out in the net-zero transition plan?
- Does the company's decarbonisation strategy address and incorporate the impact of the Just Transition?



## Resilience

- Has the company analysed the resilience of its business model in – and its alignment to – climate scenarios, including the IEA's net-zero by 2050 scenario?



## Targets

- Does the company have targets to grow investments/underwriting in relation to 'low/zero-carbon' financial and insurance products and services where there is clear alignment with the existing business model?



## Collaboration

- How is the company working to encourage emission reductions in the real economy through climate-aware financing and engagement with clients?
- Is the company advocating meaningful policy action, including from regulators, to meet global net zero targets (e.g. carbon pricing)?



## Red lines

- Does the company have restrictions around financing /investing in thermal coal, including new thermal coal projects?
- Does the company disclose its scope 3 emissions associated with its financed and insurance-associated emissions?
- Does the company disclose its climate-related lobbying activities, including trade association memberships, and explain the action it will take if these are not aligned with a 1.5°C scenario?

1. FSB (2021), data as at end-2018

2. Aiming to cover all segments of the business, as articulated within the GHG protocol guidance and additional PCAF requirements/standards.

3. Short-term refers to 2022 - 2025, medium-term 2026-2035 and long-term 2036-2050.

## Further areas for company consideration

### Biodiversity expectations

**Why?** The climate and nature crises are inextricably linked.<sup>4</sup> Net zero requires both emission avoidance and sequestration. Functioning natural systems are essential to this but increasingly vulnerable due to climate change.

**LGIM’s expectations:** An assessment of the impacts and dependencies on nature and biodiversity, and appropriate mitigation actions.

**Sector-specific considerations:** Indirect impacts could result from an insurer’s role in enabling activities through risk management, underwriting and investing practices.



### Company levers

- Transitioning away from underwriting and investing in high-carbon activities
- Building climate considerations into risk management frameworks to reduce and reprice carbon exposure
- Climate risk disclosure
- Increasing intermediation of capital into low-carbon activities
- Climate-supportive products and advisory services; customer education



#### 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 insurance products  
 Improved reputation and stronger relationships with customers/ governments



#### What is needed?

Company leadership	Research and innovation	Consumer behaviour
Alignment of investments/ financing with net-zero global trajectory, with targets for portfolio emissions increasing in stringency over time	Investment innovation to allow capital flows at scale into low-carbon solutions, including collaboration with regulators and development agencies	Growing market for sustainable/ low-carbon financial products

### Government policies

- Carbon pricing
- Capital requirements and stress-testing aligned with rising carbon risks
- Mandatory climate change disclosures

4. UN IPCC-IPEBS, [Biodiversity and Climate Change workshop report \(2021\)](#)

### Sources of emissions



**'Scope 3'  
Upstream**

**Indirect** GHG emissions from a company's supply chain, employee travel etc.



**'Scope 1'**

**Direct** GHG emissions from companies' operations, including facilities and vehicles



**'Scope 2'**

**Indirect** GHG emissions from purchased energy



**'Scope 3'  
Downstream**

Other **indirect** GHG emissions from insurance and investments.

### 'Just Transition' considerations

Potential implications for employees, supply chain, customers and communities from the transition to a lower-carbon business model.

High premiums for insuring assets in high-risk areas (due to climate change), impacting affordability

### Physical risk impacts

Direct risks in property investments and insurance as changing climate could make certain areas uninsurable

Indirect climate impacts on demographics and insurance liabilities

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



## For more information and to see how companies are rated

[Climate Impact Pledge 2022 - Net zero: going beyond ambition \(lgim.com\)](https://www.lgim.com/climate-impact-pledge-2022-net-zero-going-beyond-ambition)

[LGIM Climate Impact Pledge score](#)

[LGIM Climate Impact Pledge](#)

### Important information

**Source: LGIM as at August 2022. 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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