HYMANS ROBERTSON

RISK TRANSFER | **SPOTLIGHT**

Insurers move towards net-zero goals on investment portfolios

The pensions bulk annuity market continues to grow: nearly £50bn of assets were transferred to insurers in 2023, and there are no signs of the market slowing down. As more pension schemes look to insure benefits, insurers are increasingly coming under scrutiny for their sustainability efforts.

In recent years all insurers in the bulk annuity market have publicly committed to ambitious targets to reduce their emissions. These targets cover their own business operations, but crucially also the emissions associated with their investment portfolios.

Many insurers are aiming for carbon neutrality on their investments by 2050 or earlier, and all have set interim targets. For pension scheme trustees who are looking to buy out, tracking insurers' progress against their interim targets can be a good indicator of their likely success.

All insurers publish annual reports, including climate disclosures aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Metrics include operational and investment emissions, and often stress testing against various climate scenarios.

The figures disclosed can vary by carbon intensity metric, and by the currency with which metrics are recorded. But the disclosures over time can show how each insurer is progressing.

Carbon intensity metrics

Weighted average carbon intensity (WACI)
for example, tonnes of CO_2 per \$m of revenue

Shows how carbon-intensive the companies in a portfolio are relative to their economic output, rather than measuring the absolute emissions.

Carbon footprint
for example, tonnes of CO_2 per \$m invested

Quantifies the total emissions associated with the companies in which the portfolio is invested, usually normalised per dollar invested.

Measuring progress through the latest data

Table 1 and figure 1 are based on data from insurers' 2023 disclosures: total investment portfolio size, the proportion of assets that emissions metrics are based on, and their relative reported scope 1 and scope 2 emissions.

This data is helpful to understand each insurer's standing in the market, but progress over time against their own targets will best demonstrate the extent of their success.

Figure 1. Carbon intensity of insurers' investment portfolios (scope 1 and 2 emissions)

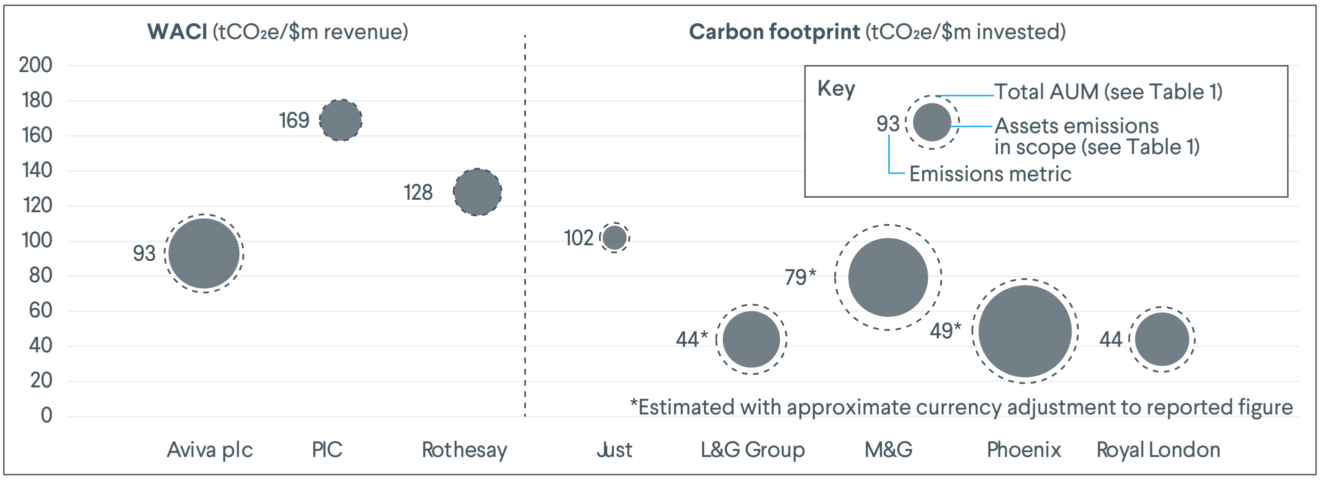


Table 1. Insurers' assets in scope for carbon emissions reporting

	Aviva plc	PIC	Rothesay	Just	L&G Group	M&G	Phoenix Group	Royal London
Assets under management (£bn)	171.8	47.5	62.2	24.0	136.4	313.5	308.9	118.0
Assets in scope for emissions	Credit and equities	Whole	Whole portfolio	Credit portfolio only	Proprietary assets	Public equities and corporate debt	Public credit and equities	Corporate fixed-income and listed equites
Value of assets in scope (£bn)	141.0	47.5	62.2	16.3	92.5	178.7	244.0	82.0
Proportion of assets in scope	82%	100%	100%	68%	68%	57%	79%	69%

Figures 2–8 set out details of the scope 1 and scope 2 emissions reported by insurers, showing their progress towards their published targets. Insurers reporting WACI are in blue, and those reporting carbon footprint are in green.

M&G has published metrics since 2021, but no figure is disclosed for the 2019 baseline position to allow a comparison. Canada Life has not published emissions metrics as part of its latest reporting.

Most insurers are ahead of their target position on this basis, with only Just showing a position that's behind target. However, Just is on track against its interim target when scope 3 emissions are included.

Just publishes separate metrics for its lifetime mortgages, with the same target of a 50% reduction by 2030. Its 2019 baseline position has been realigned with 2023, owing to a new approach for calculating emissions on these assets.

There are some limitations to the proportion of the insurer's total investments included in the emissions data. For example, Aviva's in-scope credit and equities amount to around 82% of its total assets under management.

Ultimately, insurers' final 'true' net-zero position is expected to include all investments and all emissions, including scope 3 (indirect) emissions, which are more complex to measure and typically not currently included in reported metrics at this stage.

WACI Carbon Footprint

Figure 2

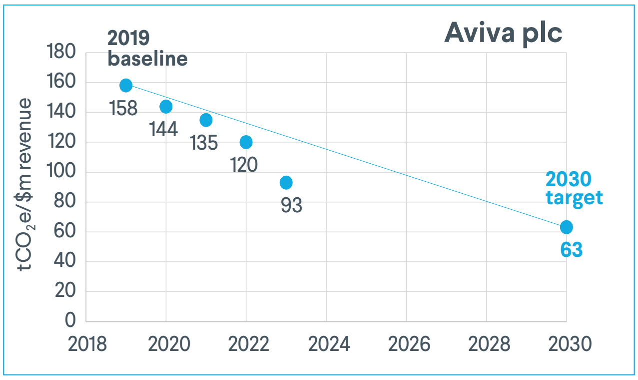


Figure 3

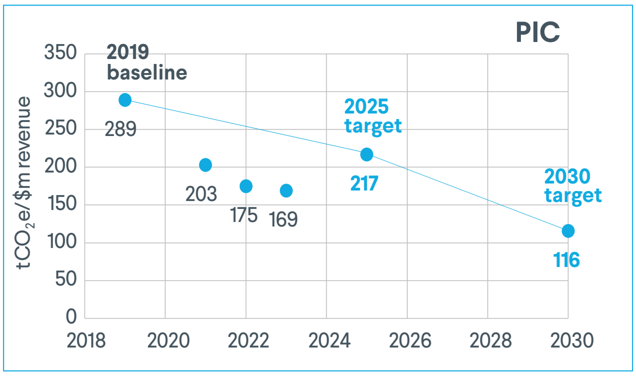


Figure 4

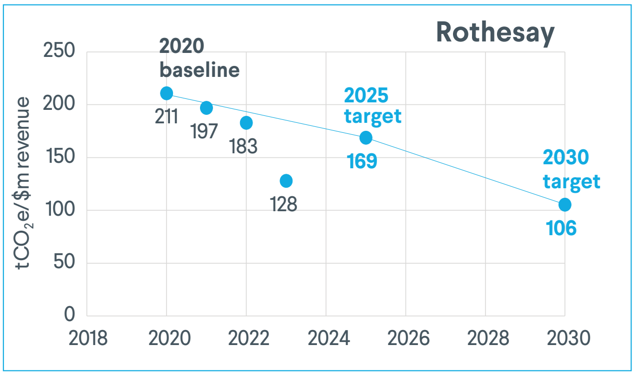
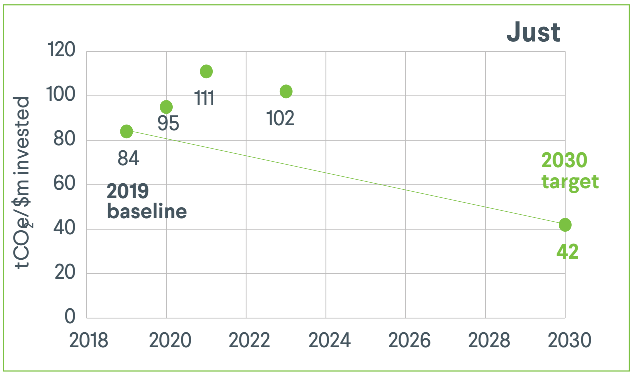


Figure 5



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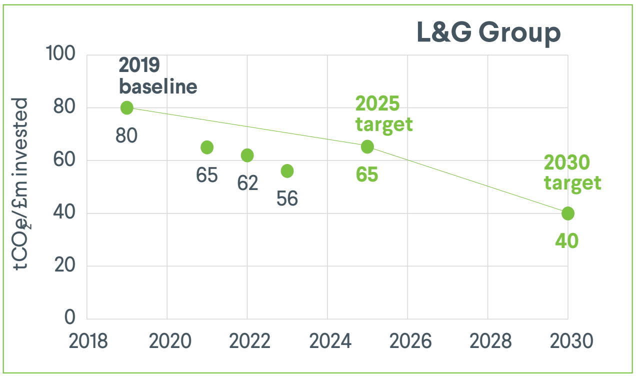

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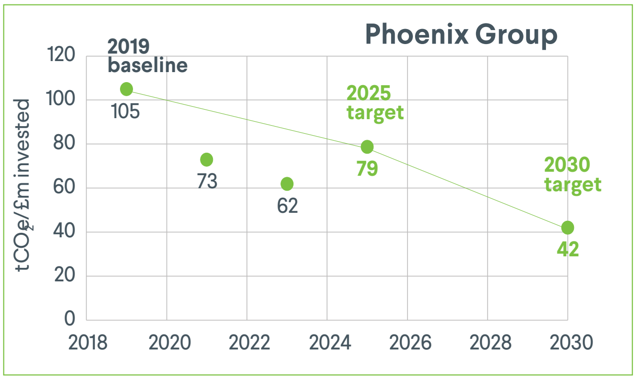
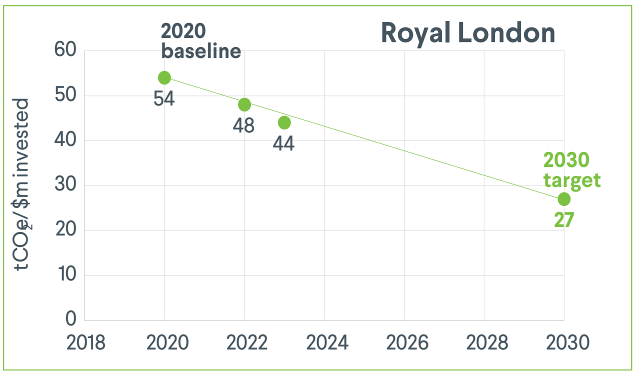


Figure 8



Overall, most insurers are making good progress towards their net-zero targets. However, trustees should continue to monitor how the insurers' positions evolve before deciding which provider to transact with.

Want to find out more?

Paul Hewitson

Head of ESG for Risk Transfer
0121 212 8132
paul.hewitson@hymans.co.uk

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