HYMANS ROBERTSON

Spotlight: Insurer TCFD reporting and net zero targets

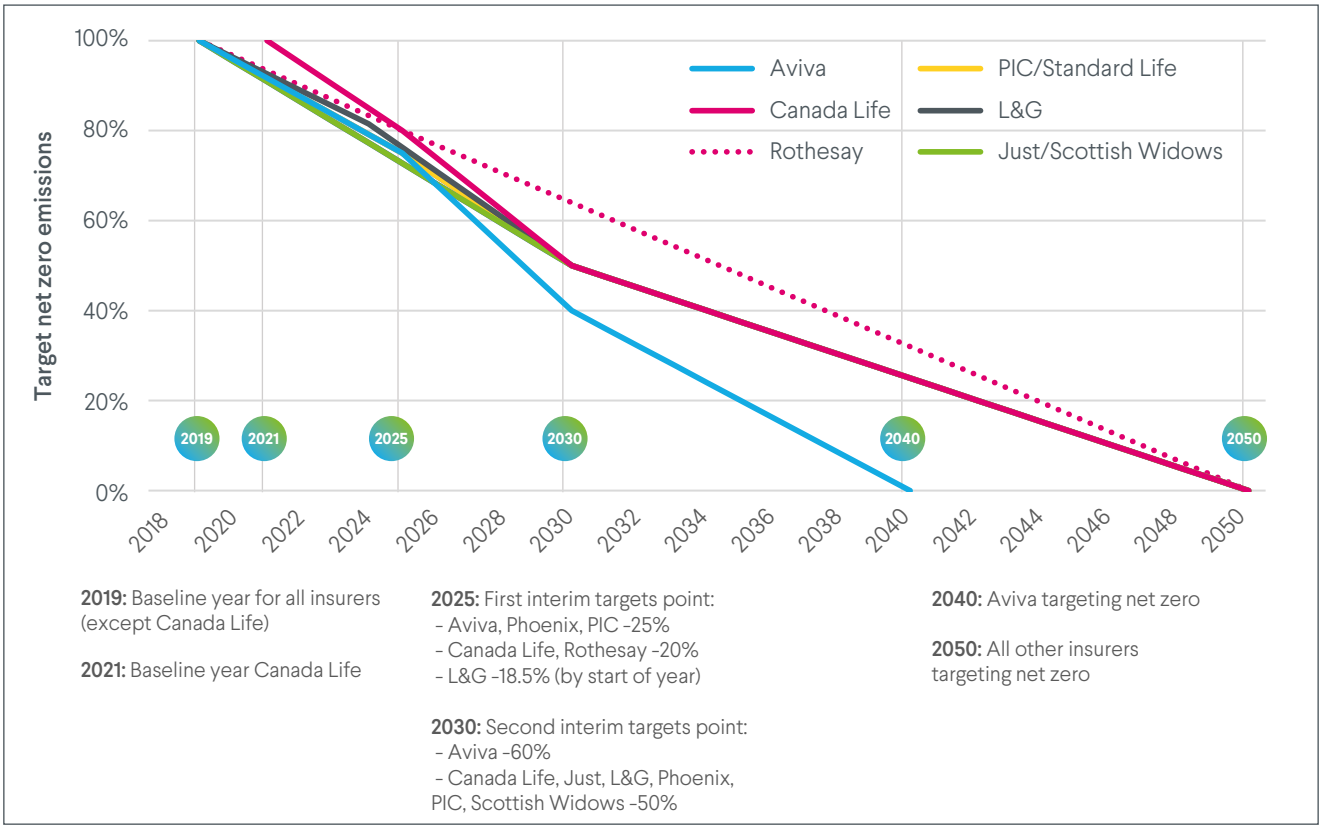
By Paul Hewitson, Head of ESG for Risk Transfer

In our recent Risk Transfer report, I took an initial look at one of the challenges that trustees face when trying to compare insurers' progress against their own targets to reach net zero emissions, as set out in their TCFD reporting.

In the bulk annuities market, all insurers have published their first disclosures in line with the Taskforce for Climate-related Financial Disclosures (TCFD) framework, including details of:

- **their targets for emissions reduction and net zero ambitions;**
- **their transition plans setting out the actions they propose to take; and**
- **the metrics they will use to track progress towards their net zero targets.**

On the first of these points of detail – in looking to compare insurers' net zero targets – the range of interim and ultimate net zero targets can make for a tricky comparison. The chart below shows each insurers' targeted evolution for the emissions from their investment portfolios.



2019: Baseline year for all insurers (except Canada Life)

2021: Baseline year Canada Life

2025: First interim targets point:
- Aviva, Phoenix, PIC -25%
- Canada Life, Rothesay -20%
- L&G -18.5% (by start of year)

2030: Second interim targets point:
- Aviva -60%
- Canada Life, Just, L&G, Phoenix, PIC, Scottish Widows -50%

2040: Aviva targeting net zero

2050: All other insurers targeting net zero

However, as noted previously when looking to compare insurers, the devil is in the detail – both with their headline targets, but also in the plans of how each insurer will look to transition the assets within their investment strategy to meet their goals.

In this report we delve further into the other points of detail from insurers' TCFD disclosures, as noted above – insurers' transition plans and their metrics for measuring progress towards their target.

2. Transition plans

A key area of development for all insurers is formulating and communicating the actions that they are taking now, and those they plan to take in the future, to support their commitments.

Many insurers are actively working on their transition plan as a strategic priority, with a range of approaches being employed to meet ambitious targets for decarbonising their existing investment portfolios The table below shows some examples published by each insurer:

Aligning with investment partners with same level of commitment to drive change	**Identifying their own investment plans for transition** and supporting the plans of others	**Stewardship and active engagement to drive change** - through voting, dialogue, and escalation strategies	**Disinvestment where progress not being made**, and exclusion of high-risk activities (e.g. thermal coal, munitions etc.)
L&G are setting and externally validating science-based targets to monitor and report on lifetime carbon emissions **PIC** work closely with their public credit portfolio managers, with ESG as a standing agenda item **Rothesay** are looking to partner with governments and industry to identify ways to increase lending to sectors supporting a low carbon economy **Phoenix Group** wrote an open letter to investment partners setting out expectations for addressing climate change	**Aviva** aim to invest £2.5bn in low carbon and renewable energy infrastructure, and have committed £10bn into lower carbon strategies **Just** aim to increase investments in green assets, such as renewable energy and clean technology **PIC** actively seek companies that are 'ahead of peers' on transition, and well placed to adapt to industry and regulatory changes **Scottish Widows** aim to invest £20-25bn in climate-aware strategies, with a bias towards companies developing climate solutions	**Aviva** have targeted the 30 largest global polluters in their Climate Engagement Escalation Programme **Canada Life** have committed to engage with 'Followers and Laggards' in sectors most sensitive to climate change **L&G** are actively engaging with top emitters (and rating those responsible for more than half of emissions from listed companies) **Phoenix Group** have entered several collaborative partnerships to promote transparency and best practice across the industry	**Canada Life** will not invest in companies that earn more than 15% of revenue from thermal coal, unless they have plans to reduce this below 5% by 2030 **Rothesay** have adopted exclusions related to certain coal financing and controversial weapons, but also retaining flexibility to support plausible transition projects **Scottish Widows** launched a fossil fuel-free and UK-centric fund, with objectives to deliver positive returns AND environmental impact

At the same time as decarbonising their investments, insurers are looking to achieve net zero in their own operations and supply chain. This includes commitments to reduce energy consumption, only using 100% renewable energy for their offices, moving fleet vehicles to solely electric/hybrid, and using high quality carbon offsets, such as carbon capture.

3. Metrics

There are many metrics that can be employed to evaluate progress against climate change targets and progress on emissions reduction is one of these. The table below sets out details of the carbon intensity metrics published by each insurer, with key differences between insurers highlighted in their respective metric units, the scope of emissions that they have included in their figures and which assets from their investment portfolio are covered within the results.

Insurer		Metric used	Emissions included in metric	Assets included in metric
Aviva		tCO_2e/ $m sales	Scope 1 and 2	Equity and credit assets in shareholder and with-profits fund
Canada Life		tCO_2e/ $m revenue	Scope 1 and 2	Disclosed separately for all asset classes in shareholder funds, and managed fixed income and equity in customer funds
Just		tCO_2e/ $m invested	Scope 1, 2 and 3	Disclosed separately for liquid corporate bonds and lifetime mortgage portfolio
L&G	EVIC	tCO_2e/ £m invested	Scope 1, 2 and 3 (where possible)	All invested assets (excluding cash and derivatives)
	Revenue	tCO_2e/ £m revenue		
Standard Life	EVIC	tCO_2e/ £m invested	Scope 1 and 2	Listed credit and equities
	Revenue	tCO_2e/ £m revenue		
PIC		tCO_2e/ $m revenue	Scope 1 and 2	Public and private debt
Rothesay		tCO_2e/ $m revenue	Scope 1 and 2	All invested assets
Scottish Widows		tCO_2e/ £m invested	Scope 1 and 2	All invested assets (excluding securitised loans, government)

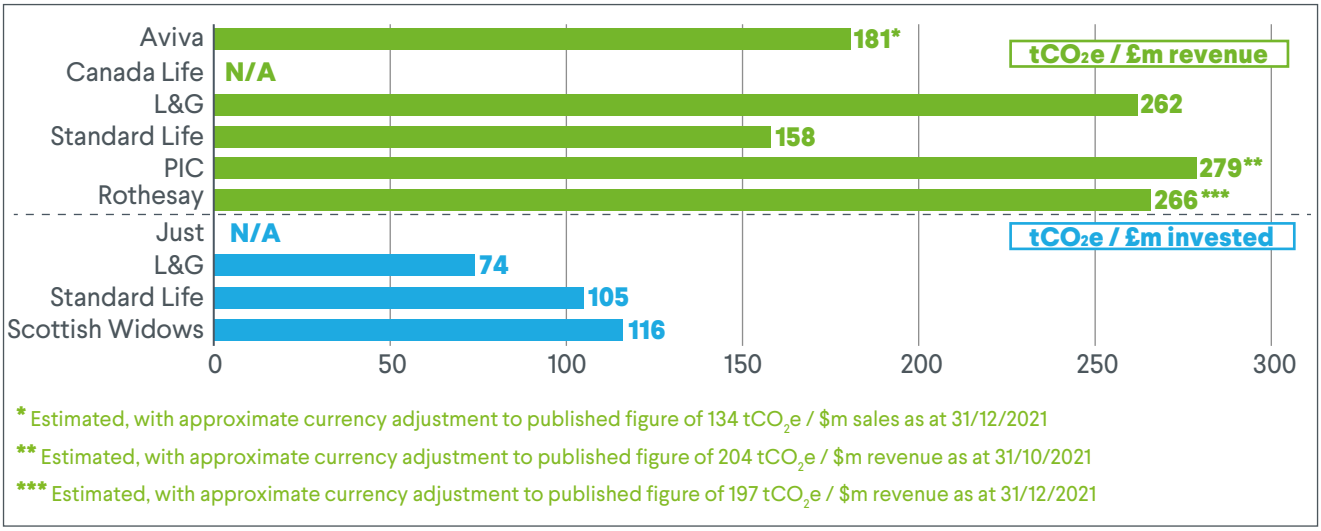
The first difference lies in the choice of intensity metric between those which are weighted by sales/revenues (often known as Weighted Average Carbon Intensity) and those which are weighted by assets invested (often known as carbon footprint). We need to be sure that comparisons are on a like for like basis.

Whilst some adjustment to the published figures is possible to allow comparison on an equivalent currency basis, one of the key differences at this early stage of insurer's journey to net zero is the levels of emissions that are included. Metrics including scope 1 emissions (i.e. direct emissions from operations owned or controlled by the reporting company) and scope 2 emissions (i.e. indirect emissions from the generation of purchased electricity or heating) are the most common, but some insurers have also included scope 3 emissions where available (i.e. all indirect emissions in the value chain of the reporting company).

A further issue in comparing insurers' reported metrics is data limitations. Data coverage varies between each insurer and different asset classes, ranging from 20% in some asset classes up to 100% in others. Overall levels of data coverage within the published metrics are typically around 80-85%. Whilst we expect data coverage to increase over time, this may mean reported metrics get worse before they get better.

One particular challenge relates to scope 3 emissions which can be hard to measure, explaining its omission from the reported metrics of many insurers. We also expect this to improve over time and its inclusion to become standard practice. It can also be difficult to obtain accurate and reliable emissions data on certain asset classes, for example private illiquid assets. This can limit the ability of insurers to publish reliable metrics across their whole portfolio, although there are approximate methods available. Understanding the limitations of data is therefore critical in making comparisons and in judging the approach taken by insurers.

Recognising these limitations, the chart below shows a comparison of insurers' published carbon intensity figures for 2021, including approximate adjustments to show figures on an equivalent currency basis.



* Estimated, with approximate currency adjustment to published figure of 134 tCO_2e / $m sales as at 31/12/2021

** Estimated, with approximate currency adjustment to published figure of 204 tCO_2e / $m revenue as at 31/10/2021

*** Estimated, with approximate currency adjustment to published figure of 197 tCO_2e / $m revenue as at 31/12/2021

We note that some insurers have already restated prior years' results (both up and down) as a result of additional data becoming available and, in the short term, any increase in the emissions metric shouldn't necessarily be taken as a negative. Changes will improve the quality of the reporting and the extent to which insurers and their clients are able to assess climate related risks.

Ultimately insurers are aiming to reach their net zero position across all of scope 1, scope 2 and scope 3 emissions, for their whole portfolio, so we expect that reporting will evolve over time and some of these issues to fall away as the quality of measurement improves. However, in the short term, direct comparison of insurers' progress will need to consider and factor in the limitations set out above and the extent to which the assets included in published data reflects the insurers' underlying annuity book.

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