For directors of companies that issue securities on public markets. Capital at risk.

Net-zero: Insurance

48% of global financial assets are in banking and insurance, which have a significant climate impact through their associated emissions.[1]
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?[2]
- Has the company made a commitment to certify/certified this target with the SBTi or other external independent parties as it develops?
- Does the company have a net-zero transition plan that includes short- and medium-term targets?[3]

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 its business model's resilience to climate-related risks and opportunities using scenario analysis (including the IEA's net-zero by 2050 scenario and a 'business as usual' scenario) and disclosed how the output has influenced its strategy?

Targets

- How is the company planning to grow investments/underwriting in relation to 'low/zero-carbon' financial and insurance products and services?

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/advocacy 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

Nature expectations

Why? The climate and nature crises are inextricably linked.[4] Climate change is one of the five direct drivers of nature change. Net-zero requires both emission avoidance and sequestration. Therefore, the inter-dependencies between climate and nature are a critical factor in the transition.

LGIM's expectations: As part of a climate transition plan, companies should integrate an assessment of the related nature risks and opportunities, impacts and dependencies, and appropriate mitigation actions.[5]

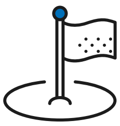
Sector-specific considerations: Indirect impacts could result from an insurer's role in enabling activities through risk management, underwriting and investing practices.

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

Government policies

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



Challenges

Data and compatibility with risk frameworks

Mismatch of timings, incentives, maturity of investments

Regulatory divergence and competing priorities

Political and counterparty risk

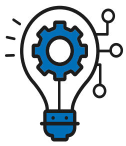
Fungible, fragmented sources of capital

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

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

Research and innovation

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

Consumer behaviour

Growing market for sustainable/ low-carbon financial products

4. UN IPCC-IPEBS, Biodiversity and Climate Change workshop report (2021)
5. LGIM's Nature Framework can be accessed here

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.

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

'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

For more information and to see how companies are rated

[LGIM Climate Impact Pledge score]

[LGIM Climate Impact Pledge]

Important information
Source: LGIM as at October 2024. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested. The above information does not constitute a recommendation to buy or sell any security.