

An investor initiative
in partnership with



United Nations Global Compact

Climate Risk in the Insurance Sector

Kimberly Gladman, Ph.D., CFA
Senior Associate, Climate Change

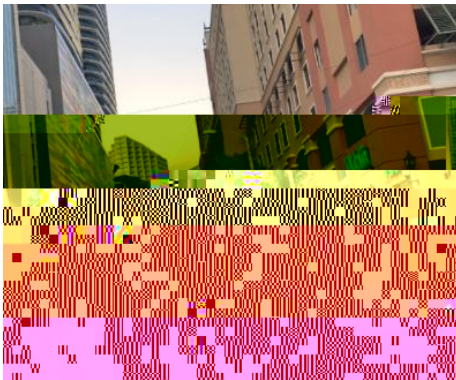
June 2022



How does climate change impact investors?

Three main real-world risk factors threaten the economy and society

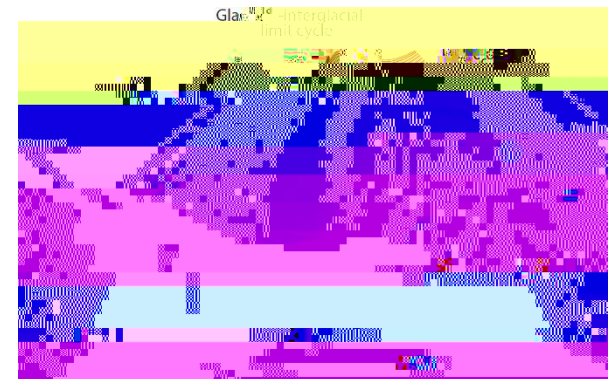
Physical Risk



Transition Risk

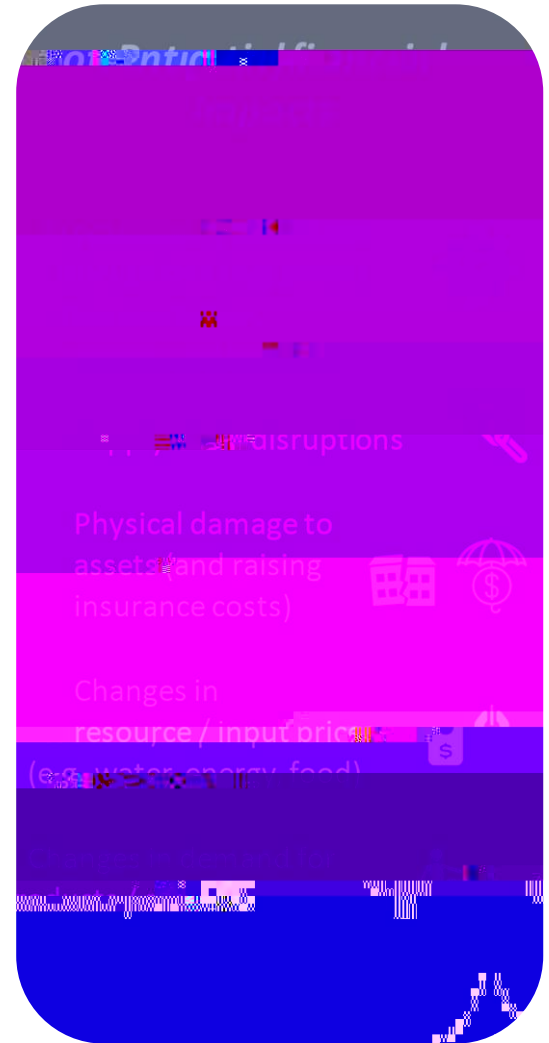
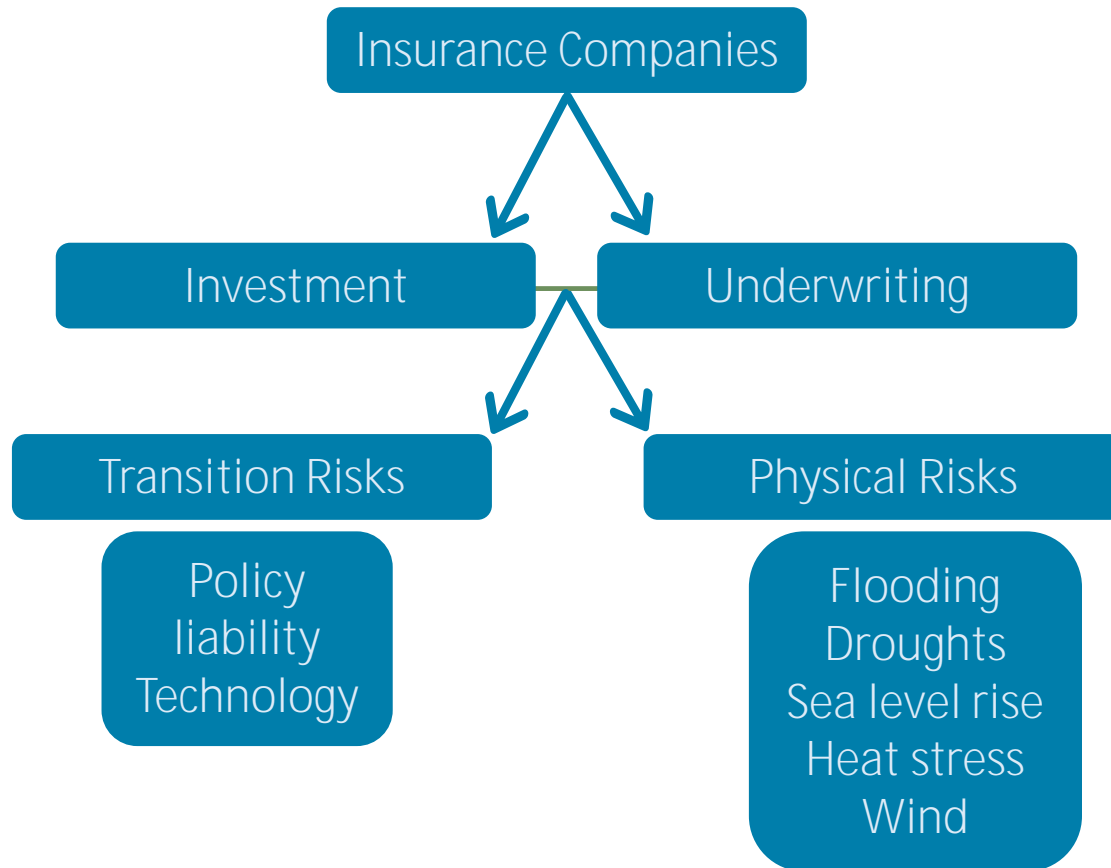


Systemic Risk



temperatures rising more quickly than expected and document the long-term effects of increased CO₂ in the air. Insurers are especially exposed due to the risks facing both the underwriting and the investment portfolios.

Climate Risk and Insurance

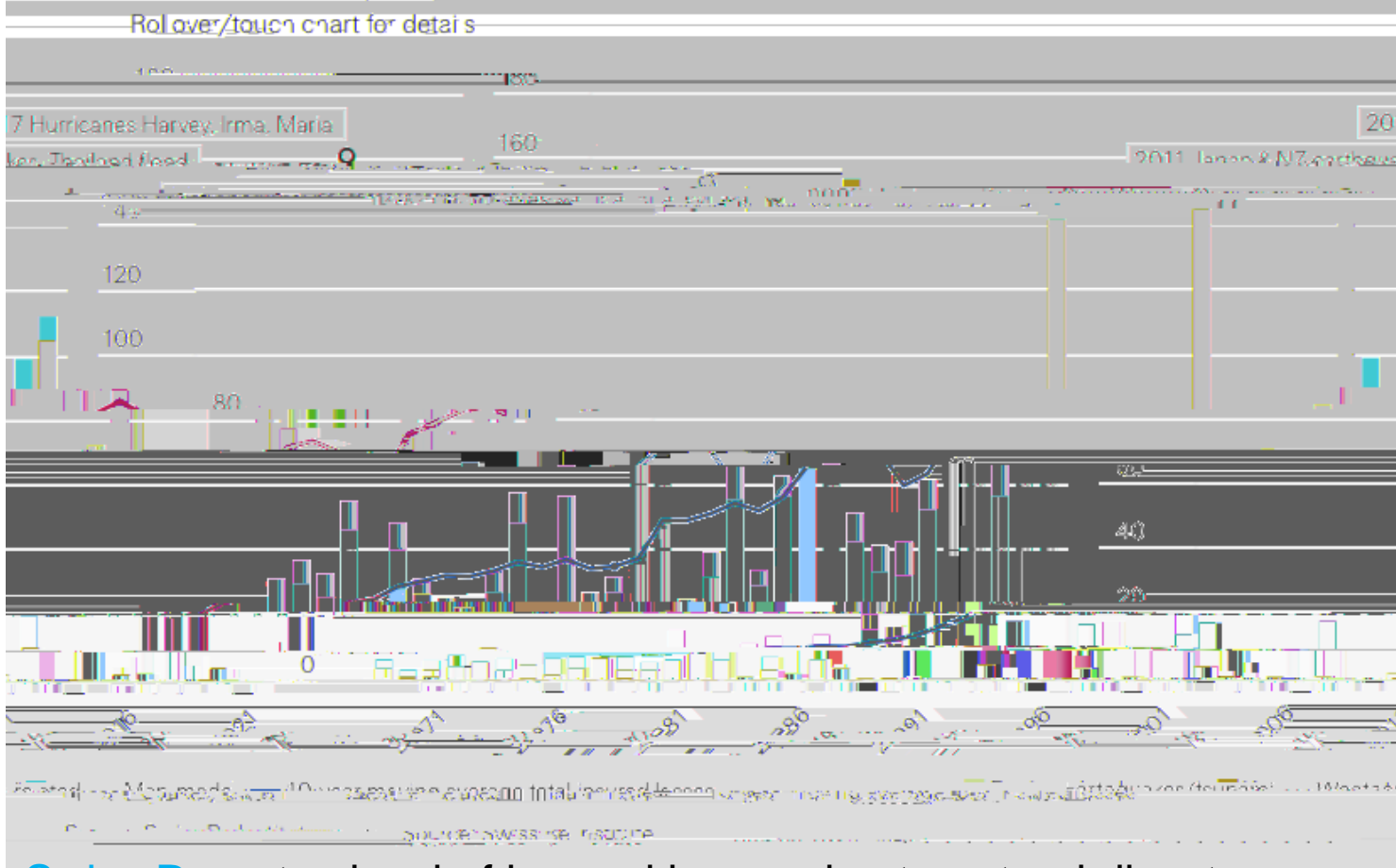


Identification of Risks and Opportunities



Figure 1: Insured losses since 1970

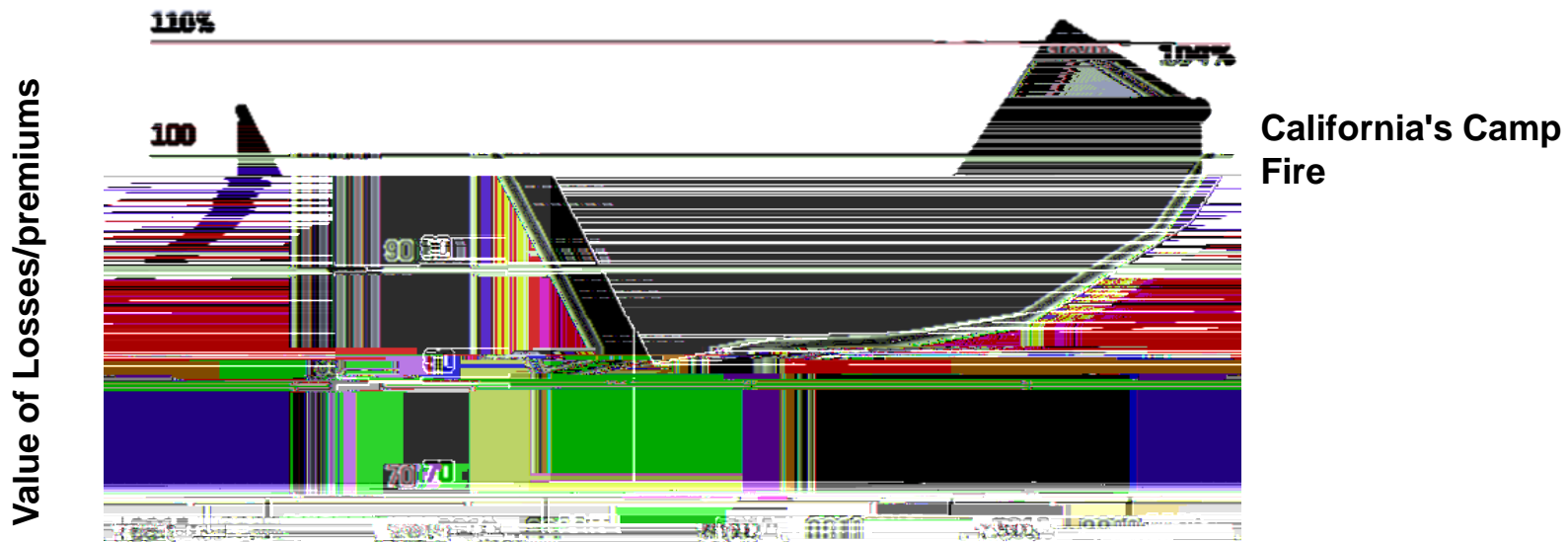
USD billion (in 2021 prices)

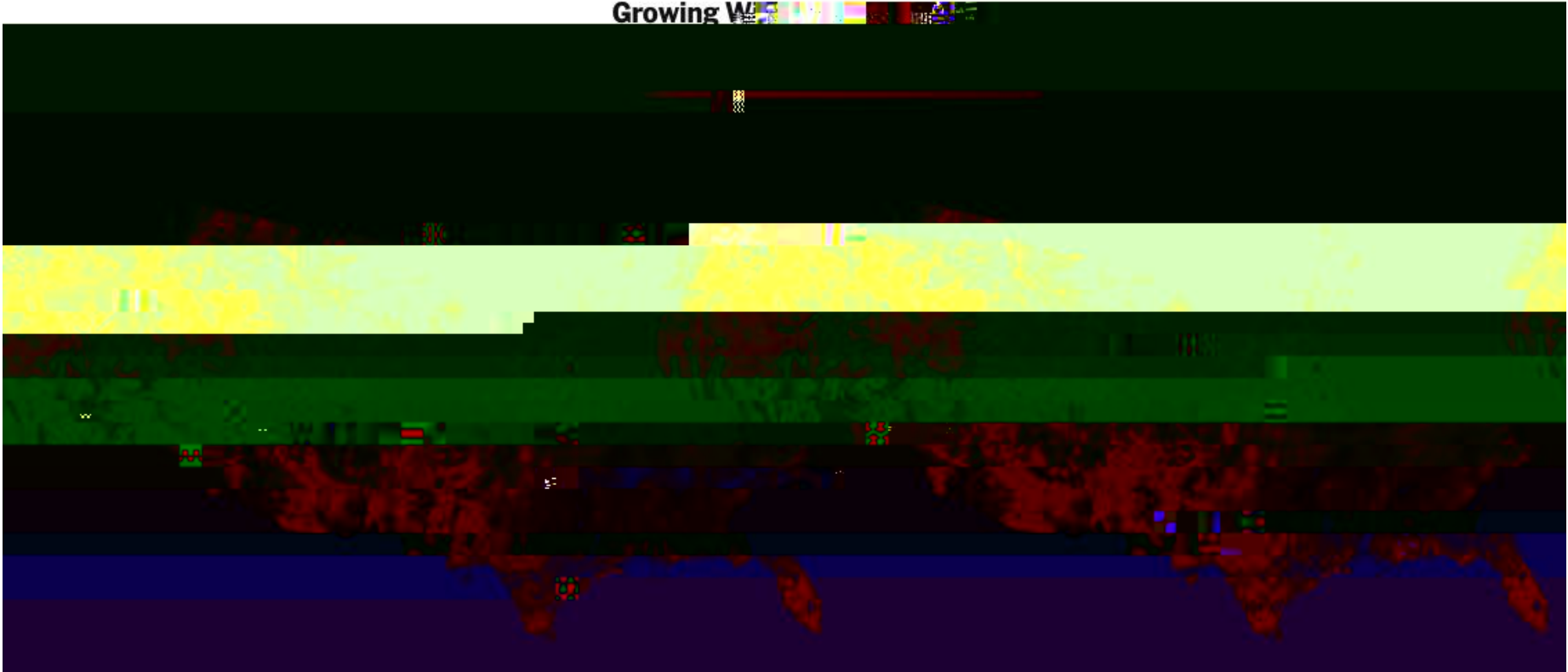


Swiss Re notes level of insured losses due to natural disasters weather is rising 5-6% annually

Climate Change as a Financial Risk

SwissRe's Global Payouts from Disasters as a Share of Premium Income





[First Street Foundation](#) Wildfire Model finds:

half of all continental US addresses face some wildfire risk

686,000 face a 1% risk this year; 30 years from now 2.5 million addresses will do so

381,000 current property owners have a fire risk of over 50% at some point in their 30-year mortgage

A recent [Nature](#)

Investors are using four main tools manage climate risk

Climate change as an investment risk

Governance and Strategy

A Key Strategy Tool: Scenario Analysis

Can be done in-house by investment staff OR with consultants

Can involve company-by-company assessment OR macro-level holistic view of industries, sectors, and the economy



Risk Management

Incorporation of climate into risk identification, analysis and management

Climate related due-diligence:

of asset managers

by asset owners

of investee

companies by asset managers

Engagement with investee companies

Engagement with policymakers

Participation in investor networks



Paris Aligned

Key Issues for Insurers:

Are policyholders being helped to manage risk?

Are underwriting and investment risks both being considered, along with potential interactions between them?

Metrics and Targets

Metrics:

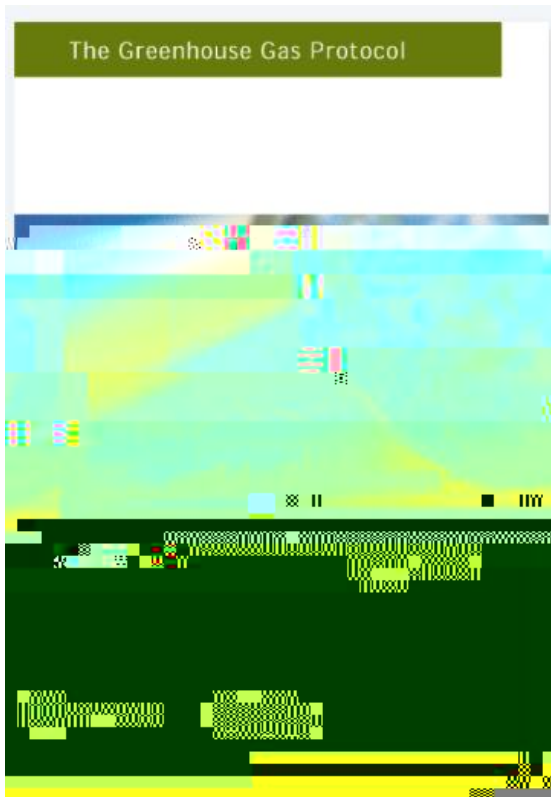
can provide assessment of current state of portfolio (e.g., alignment with temperature scenario; carbon intensity scaled by various factors; percentage investment in fossil fuels or green energy; levels of engagement with investee companies)
should be presented relative to benchmark for comprehensibility

Targets:

arise from strategic planning discussions
relate to items tracked by metrics
should include both medium and longer-term targets

Key for insurers:

Disclosure of underwritten emissions
Disclosure on catastrophe modeling
Business lines, sectors, geographies exposed to physical risk



GHG protocol developed by World Resources Institute and World Business Council for Sustainable Development
Provides a standard method for organizations to identify, calculate and report direct and indirect emissions and set targets for reduction
Additional calculation tools also provided, as well as guidance for cities & product life cycles

www.ghgprotocol.org

The Standard, developed by the PCAF Global Core Team, provides detailed information on biological and geological carbon storage.

<https://www.pcaf.org/standard>

Examples of Actions Taken by Insurers & Other Financial Firms

Governance:

- Board training
- Committee charters
- Management job description changes

Risk Management

- Catastrophe Modeling
- Investee Engagement
- Policy Engagement

Strategy:

- Client risk control services
- Portfolio scenario analysis

Metrics and Targets:

- Absolute Emissions
- Weighted Average Carbon Intensity (WACI)
- Implied Temperature Rise
- Net Zero by 2050

For more information



<https://www.unpri.org/climate-change/climate-risk-an-investor-resource-guide/9329.article>

Kimberly.Gladman@unpri.org