CLIMATE CHALLENGES FOR THE INSURANCE SECTOR

VICTORIA SAPORTA

Executive Committee Chair, International Association of Insurance Supervisors (IAIS)

Winds of change: action by the insurance sector to tackle climate risk

This summer's extreme weather events provide a preview of the risks to insurers from climate change. We experienced record temperatures in North America and extreme flooding across Western Europe. Estimates of storm damage insurance claims in Germany already top €5.5 billion and are expected to rise further.[1]

The World Meteorological Organisation estimates that the global temperature is already 1.2oc higher than pre-industrial times. Temperatures will continue to rise even with global action, which is currently expected to fall short of the agreed Paris targets.[2] Although establishing a direct causal link between an individual weather event and climate change is still an evolving science, it is clear that climate change in general will lead to more extreme and frequent weather events, increasing the physical risks to which insurers are exposed. This will be coupled with broader economic impacts, which Swiss Re estimates could see an 18% reduction in global GDP in 2050 unless climate action is taken now.[3]

Transition risk is equally important for insurers; with the magnitude of the risk dependent on various factors, including the pace of policy action and future changes in technology. Insurers will need to manage their investment exposures to those assets and sectors that are most vulnerable to transition risks. Earlier implementation of reforms is better for the insurance sector, as unlike many other actors they face both significant transition and physical risks.

So what can insurers and supervisors do to reduce these risks?

Insurers are in the business of identifying, understanding and managing risk; key skills for navigating climate change. It is clear that the risk is systemic and will affect nearly all insurers, regardless of their size or business model. At a minimum, it is essential insurers understand the significant risks that climate change poses to their balance sheets. However, they also have a crucial role to play in helping their clients adapt to these emerging risks, and it is good to see the concerted action that is now being taken in this area.

Insurance supervisors also have an important role to play. Not only as microprudential supervisors, ensuring individual insurers are managing their climate exposure, but also from a macroprudential perspective, in assessing, understanding and mitigating the impact of risks across the insurance sector and financial system more broadly. Lastly, supervisors can create an enabling environment that supports insurers in their role as stewards of the transition to a net zero economy, in line with their key objectives of policyholder protection and maintaining financial stability.

The IAIS is focused on developing new expertise and approaches for understanding and responding to the evolving climate risk landscape. In May, together with the UN-convened Sustainable Insurance Forum (SIF), the IAIS published an Application Paper[4] that guides the actions insurance supervisors can take to better understand and manage climate risk. The paper includes recommendations on supervisory reporting, governance and risk management, investment policies and disclosures and provides various practical examples of our members' experiences to develop effective supervisory responses to climate risk.

In terms of macroprudential assessment and monitoring work, in September the IAIS will publish a deep dive analysis on the potential financial stability implications of insurers' investment exposures to climate-related risks as part of the IAIS' Global Insurance Market Report (GIMAR). This report builds on a data collection from more than 30 IAIS Members and includes a forward-looking scenario analysis, which provides insurers and supervisors with valuable information about insurer climate exposures.

Future work of the IAIS includes a gap analysis of our global standards for insurance supervision to consider whether changes are needed to take account of growing climate risk, or whether further supervisory guidance is needed. Furthermore, as a follow-up to the GIMAR publication, the IAIS will continue to develop its macroprudential data and analytical tools, including by identifying emerging good practices on climate risk scenario analysis.

It is imperative that insurers pick up the pace of their efforts to assess and address the risks from climate change, given the systemic risk it poses to financial and economic stability and social cohesion. As a global community of supervisors, the IAIS is united in its call to act together now to address this risk.

[1] German insurers expect up to $6.5 bln in storm claims | Reuters
[2] https://climateactiontracker.org/global/temperatures/
[3] World economy set to lose up to 18% GDP from climate change if no action taken, reveals Swiss Re Institute's stress-test analysis | Swiss Re
[4] https://www.iaisweb.org/page/supervisory-material/application-papers/file/97146/application-paper-on-the-supervision-of-climate-related-risks-in-the-insurance-sector

DAVID ALTMAIER

Florida Insurance Commissioner and President,
National Association of Insurance Commissioners (NAIC)

Levelling up on climate and resiliency

The insurance sector faces potentially significant impacts from the escalating effects of climate due to its exposure to weather-related property risks, investment volatility, and other issues. Increasing frequency and intensity of natural disasters pose a threat to insurer solvency, especially considering that insurer financial soundness is heavily dependent on its investment portfolio. Financial implications for insurers can impact product availability for consumers, who have their own role to play in mitigating risks they face. Accordingly, communication and collaboration amongst supervisors, industry and consumers is key. For example, having effective climate risk disclosures may help insurance regulators assess and evaluate insurance industry risks along with the potential for insurer actions to mitigate climate risk.

Given the issues facing insurance consumers and the insurance sector, the National Association of Insurance Commissioners (NAIC) and U.S. state insurance regulators continue to work with counterparts both domestically and internationally on the critical work of addressing climate and resiliency.

As the U.S. continues to face increasingly severe weather patterns, natural disasters and repeat losses in many markets, climate and resiliency remains among the top priorities of the NAIC. The NAIC has been studying the growing impact of climate risk since 2005; however, addressing this issue was elevated in July 2020 with the creation of its Climate & Resiliency Task Force. The task force focuses on climate concerns stemming from two pillars: solvency risk from catastrophic losses and market issues regarding availability and affordability of coverage.

Several workstreams have evolved from the task force to focus on: solvency, climate risk disclosure, pre-disaster mitigation, innovation, and technology. Efforts by these workstreams are well underway, for example:

- In 2010, the NAIC adopted the Insurer Climate Risk Disclosure Survey as a way for to identify trends, vulnerabilities, and best practices by collecting information about how companies assess and manage climate risk. Since 2010, the survey has been administered by the California Department of Insurance, and this year with new states participating, the percentage of the market represented will reach 78 percent. Relatedly, last year the states allowed insurers to submit a TCFD report in lieu of the eight-question NAIC survey and the Climate Disclosure Workstream has done a preliminary study to understand how the two frameworks align.

Accordingly, communication and collaboration amongst supervisors, industry and consumers is key.

- The Solvency Workstream has been gathering information from key stakeholders to better understand climate risk factors and plans to provide recommendations by the end of 2021 or early 2022 to enhance the solvency framework to more specifically address climate risk. The workstream has already recommended that more perils be considered in the Risk-Based Capital framework.
- The Pre-Disaster Mitigation Workstream is seeking out information regarding how mitigation can drive down losses. Based on discussions of mitigation measures it will develop consumer messaging on how consumers can take the lead in managing their risk arising from natural disasters.
- The Innovation Workstream is compiling information on parametric insurance and considering regulatory concerns about how these products are designed and whether consumers fully understand how the coverage works.

The NAIC has long been engaged in looking for ways to mitigate environmental risks and recognizes the importance of helping consumers be educated about these risks and to become more resilient. For example, consumer awareness campaigns have been created to address flood, earthquake, wind and other perils. The NAIC and its Center for Insurance Policy Research are undertaking efforts to help ensure state insurance regulators have the information necessary to foster stable insurance markets for their consumers, and maintain a central web-based repository for stakeholders within the industry studying risks, resiliency building codes, and the impact on insurance.

While a variety of activities are taking place at the domestic level, learning from and contributing to efforts at the international level are equally important. Through organizations such as the International Association of Insurance Supervisors and the Sustainable Insurance Forum, jurisdictions can work collectively to address climate-related challenges, risks, and opportunities.

As insurers and consumers will continue to be impacted by climate risk, it will be crucial for insurance supervisors to keep pace with the challenges and work to leverage existing tools as well as create new ones to address this issue as it continues to evolve.

PAUL TANG

MEP, Committee on Economic and Monetary Affairs, European Parliament

Will climate change put insurers underwater?

Floods in Belgium, Germany and the Netherlands and fires in Greece, Turkey and Italy. These events coincide with the publication of the sixth IPCC report that predicts that radical weather events are becoming more intense and more frequent, among other things. As if to say: you ain't seen nothing yet.

There is no doubt that insurers will thoroughly study this IPCC report to see what the future can possibly bring. While insurers do not cover all damages by natural disasters, it seems inevitable that they need to gear up for an increase in future claims. In assessing the future, insurers face the difficulty that human understanding of climate change and its impacts is improving but far from complete. This is further complicated by the fact that the likelihood of different scenarios with wildly different outcomes depends on human action to mitigate climate change. It is indeed the coordinated and non-coordinated efforts for mitigation and adaptation that are most difficult to project into the future, while being crucial for the impact of climate change on ecosystems and economies.

Complicating as the possible financial repercussions of climate change may be, even more daunting are the public expectations of and demands on insurance companies. When it came out, after the floods in the Netherlands, that most insurances didn't cover big floodings of rivers or the sea, there was significant incomprehension. Would really all businesses and individuals in this struggling part of the Netherlands have to cover for the damages themselves? To prevent a public relations scandal, insurers quickly announced they would cover the damages for companies, and to enter into discussions with the government on how to arrange for future coverage of natural disasters. Of course governments have the role of insurer of last resort. But as natural disasters become increasingly frequent, we cannot continue to treat them as "once in a generation" events that merit a last resort intervention.

At the same time, public and political pressure is growing regarding the allocation of the sizable assets of insurance companies. Are investments in fossil fuels really compatible with the mission of insurers to shield customers from risks? Shouldn't insurers take the lead in changing investments towards a carbon-neutral economy ánd help societies to deal with the consequences of climate change? Indeed, investments in mitigation and adaptation is to be expected from insurers, especially since some of them have the scale and capability to be front-runners in impact investment and to develop a full-fledged ESG approach to their investment portfolio. Fortunately, some already have taken on that role. But further work needs to be done. And quickly if I may add.

While the scale of adjustment may be daunting, insurers can harness their pivotal position.

Being impacted by climate change both on their operations and investment side, puts insurers at a central position in our transition to a sustainable economy. This, gives insurers also the opportunity to speer-head a welcome change in (capital) markets. Mark Carney, currently the UN Special Envoy on Climate Action and Finance, emphasizes in his recent book the contradiction between value and values and advocates an approach where people and planet are at an equal footing with profits. Indeed, one could argue that not only financial market participants need a mission, the financial markets need them too: they are to serve people and planet. Environmental and social sustainability is the core theme for the years to come. Greenwashing investments, nice words about corporate responsibility, and other diversions won't do the trick. It requires much more than a change in investment portfolio; it requires a different way of working where stakeholders, broadly defined, have an impact on the insurances companies themselves and on the companies in which they invest. It is only then that markets can live up to the environmental and social challenges that lie ahead. But insurers have every reason to engage in the make-over of markets: they face tough challenges in every aspect of their business, placing them at the heart of the change that is about to come.

Insurers thus face challenges both on their operations and investment side. The coverage (both explicit and implicit) insurers provide to clients suffering from natural disasters will increase the burden on insurers and calls for a re-evaluation of the relationship between governments and insurers. At the same time the sizable investment portfolios of insurers are increasingly under scrutiny and they should be aligned with the mission of insurers to protect their customers. While the scale of the adjustment may be daunting, insurers should seek to harness their pivotal position to re-direct the financial markets as a whole. Only this way, future climate disasters can be kept in check.

JOHN SCOTT
Head of Sustainability Ris,
Zurich Insurance Group

"Inside-out and outside-in" - A double-materiality view of sustainability risks

Almost every industry and their customers are on a sustainability journey as the world strives to tackle major systemic risks. Climate change tops the agenda of environmental societal and governance (ESG) risks – the lens through which the financial sector views sustainability. Insurers, so far mostly in Europe, are taking steps to help manage the climate crisis and wider sustainability risks mainly through the levers of sustainable investing and operational carbon emissions reductions. But, there is increasing recognition that the industry must deploy other levers in areas like sustainable underwriting, risk management and working with policymakers to help clients on their sustainability journey. In particular, managing climate transition and adaptation risks as our customers' risk managers become increasingly involved in developing climate change strategies. But what exactly does this all mean for insurers and their customers?

As an insurance company we cover the risks of millions of consumers as well as commercial customers in almost every industry – which means it's crucial for us to understand, discuss and act on sustainability risks. From a risk perspective this has to happen in two ways; an "inside-out" view of how an insurer can impact sustainability issues and an "outside-in view" of how sustainability risks impact the insurer, especially in its underwriting and investment portfolios.

From an "inside-out" view, insurers' need to lead by example and identify the key sustainability themes that we can influence and find solutions for. At Zurich we have identified three such themes:

- Climate change;
- Confidence in a digital society;
- Work sustainability.

In climate change we have set ambitious sustainability commitments signing up to the UN Business Ambition for 1.5°C Pledge and being co-founder members of the UN-convened Net Zero Alliances for Asset Owners (AOA) and for Insurers (NZIA). To make a real impact we also set ambitious targets to reduce our own operational emissions and emissions financed through our investments. In underwriting the first step is to understand how to calculate the emissions associated with the underwriting portfolios. We are working to develop a methodology to enable this and once we have a widely accepted methodology, analysis needs to be done on the transition pathways of the underwriting book and how we should expect the carbon emissions to develop in line with our path to a 1.5°C Future. As a result, we need to elaborate realistic, actionable steps and targets, working with our customers to facilitate the transition.

Climate change tops the agenda of environmental societal and governance (ESG) risks

From an "outside-in" view we have integrated sustainability risks into our risk management framework for both investments and underwriting. This means not only identifying the sustainability risks, but building and coordinating capabilities across the company to address them. In climate change this is largely about managing the transition and physical risks that either change the underlying risk exposures we underwrite or the values of the assets we invest in.

Today, we are discussing these climate-related risks with our investee companies through the CA100+ and directly with our commercial customers on a regular basis. It's only by working together and balancing the risks against the opportunities with our customers and engaging across the public and private sectors on climate change mitigation and adaptation, that insurers can help implement long term solutions. Zurich is consistently reviewing how our products and services meet the needs of our customers. We are monitoring developments of new technology and emerging risks so that we can develop and design new products or leverage existing ones to meet increasing ESG related opportunities. We are working together across functions and business units in multiple geographies to share customer knowledge and develop a pipeline of innovative products and services focused on supporting our customers' sustainability goals.

Nowadays understanding ESG criteria that impact their organizations the most and having a clear vision how those are being addressed, is a core skill of a risk manager. We are living in an era of stakeholder capitalism, so businesses need to be prepared to answer potentially uncomfortable questions around their ESG strategies and be proactive when they see a need for a change or capture a business opportunity that makes a positive change for society.

ESG is no longer a checkbox factor, our stakeholders are asking us to present on what we are doing on various aspects of sustainability, our culture, our purpose, what we stand for and the products that we are offering in this space. Today these factors have become selection criteria for both retail and commercial clients when choosing their insurer. Future customers will be even more demanding, as will investors, regulators, partners, suppliers and employees, so that ESG integration has become a true business imperative.

ROLAND UMBRICHT
Head of Global P&C,
Allianz SE

Sustainability is a global issue and calls for internationally harmonized rules

In 2018, the EU Commission launched an Action Plan on Sustainable Finance with the aim of creating a financial system that supports the EU's climate and sustainable development agenda. The European Green Deal, published in late 2019, raised the ambition aiming to make Europe the first climate neutral continent by 2050. It comprises a Renewed Sustainable Finance Strategy, which has been published in July 2021. The new strategy shall complement ongoing legislative initiatives as well as already announced upcoming legislative proposals. It adds four areas to fully support the transition namely (1) Financing the transition of the real economy; (2) Towards a more inclusive sustainability framework; (3) Improving financial sector resilience and contribution and (4) Fostering global ambition.

The fight against climate change is currently the pre-eminent sustainability challenge and requires the collective efforts of governments, businesses, industries and communities in Europe and around the world. In its triple role as risk manager, insurer and long-term investor, the insurance industry is a natural partner to support the transition to a low-carbon, resource-efficient and sustainable economy.

By integrating sustainability considerations into core business activities, the insurance industry can have a positive impact on the transition and capture related investment opportunities while ensuring a proper management of sustainability-related risks. This requires overarching qualitative and quantitative reporting and controlling processes and relevant corporate rules to foster the integration of sustainability-related considerations across investment and underwriting activities. Rules and standards need to be regularly updated to reflect newest insights and external developments. Sustainability assessment processes need to be integrated into overarching risk management frameworks – including sustainability considerations in the Own Risk and Solvency Assessment and related scenario analysis – which are applied to the insurance business globally.

The EU should ensure consistency in its sustainability regulation and work towards global solutions.

In this context, members of the insurance industry including Allianz have joined forces to form voluntary Net-Zero initiatives. Members of the UN-convened Net-Zero Asset Owner Alliance (NZAOA), launched in 2019, committed to transition their investment portfolios to net-zero greenhouse gas emission by 2050 with first interim targets for 2025. Members of the UN-convened Net-Zero Insurance Alliance (NZIA), launched in 2021, commit to transition their insurance and reinsurance underwriting portfolios accordingly, building on engagement processes and the pioneering work of the NZAOA. Both initiatives underline the importance of cross-industry and international partnerships and cooperation between governments and companies to tackle climate risks.

However, the sustainability challenges we face go beyond climate change and are broader and more complex. If not identified and managed effectively, sustainability related risks can have significant repercussions for insurers, their customers, suppliers, and investments. These span legal and reputational risks, supply chain and business disruption risks, quality and operational risks, and financial risks. In order to steer sustainable investments successfully, and identify and manage sustainability risks correctly, the availability, high quality and comparability of sustainability data is essential. While the ongoing EU initiatives on sustainability reporting are an important step to address the increasing need for sustainability data, a high degree of data comparability can only be achieved via international standardization. The same holds true for risk management requirements – e.g. climate change scenarios – and supervisory expectations where a consistent set of rules is essential. In general, regulators should utilize market mechanisms as far as possible, especially by setting transparent and homogeneous frameworks that make compliance with sustainability criteria a competitive advantage for market participants. At the same time, it is of utmost importance that capital requirements for insurers remain risk-based. The introduction of green supporting/brown penalizing factors for risk capital calculations without a solid data basis are not conducive to policyholder protection.

In principle, the EU should ensure consistency in sustainability regulation to avoid liability risks and work towards global solutions to facilitate international harmonization and to account for the fact that sustainability matters are of global relevance. Europe aims to become the leading continent regarding sustainability regulation and transition towards a carbon-free economy. If the EU successfully tackles the challenges above, this ambition can become a reality to the benefit of environment, society and businesses – a chance that should not be missed.

STEFANIE OTT
Head Group Qalitative RM,
Swiss Re Management Ltd

ESG – from acronym to legal requirement

If Environmental, Social and Governance (ESG) factors are not yet part of your risk framework, now is the time to prepare. The EU Taxonomy is bringing ESG from the investment sphere to your annual reporting requirements.

Looking at the ESG performance of companies started with investors who wanted a good return and assurance that people and the environment were not harmed by their investments. Out of this niche, ESG investment has become mainstream today. This was enabled by two factors: the availability of ESG ratings and the fact that ESG investments performed as well or even better than conventional ones.

An example case is Swiss Re which - after a successful trial - switched its investments to an ESG driven portfolio in 2017. Since then, the approach was further refined – also because the positive impact this was having on the insurance side of the business. One example is fossil fuel driven climate change.

No longer investing in fossil fuel industries accelerates the move to renewables and contributes to limiting climate change. The latter is a must if we want to contain the losses of weather-related perils in the years to come. Therefore, Swiss Re now targets its investments to include reaching the goal of net-zero. This will help dampen the negative effects of climate change on underwriting, while at the same time delivering attractive returns.

But ESG did not start there. The «E» was already part of the underwriting side of the business for a long time. The introduction of Environmental Impairment Liability laws in the 1980's triggered the development of insurance policies for these new liabilities – and in turn the necessary risk assessment methodologies. These were looking at the technical aspects of environmental protection.

Still, over time it became clear, that just concentrating on environmental measures was not enough. The risk culture and risk-taking behaviours were proving to be as important as environmental aspects – which made it necessary to look at the Social and Governance factors of risks. At Swiss Re this resulted in the Sustainable Business Risk process in the early 2000s. Since that time, Swiss Re systematically identifies the most critical ESG risks and assesses these risks at transactional level.

Supporting sustainability goals is a key proof point for those stakeholders - now and in the years to come.

All the activities above will become even more important in the EU with the introduction of the EU taxonomy. The taxonomy is a classification system establishing a list of environmentally sustainable economic activities. Related delegated acts have and will be specifying additional new reporting requirements on a quite detailed level. They cover content, methodology and presentation of information and apply to financial and non-financial undertakings. They aim to generate transparency on the proportion of environmentally sustainable economic activities of a business' financial transactions. This is a fundamental change and consequently triggers additional work.

To facilitate this, the development of new indicators is necessary. One key challenge Swiss Re identified in that process is the alignment between ESG and the United Nations Sustainability Goals (SDG).

ESG grew out of the investment world and its prime focus is to help make investment decisions and report on their outcomes. This approach is greatly influencing the current thinking on reporting requirements and stands in contrast to how underwriting focuses on risk.

The broad – and widely varying definitions of ESG – are not well suited to make underwriting decisions relating to sustainability. Here the «crisper» SDGs can be more useful. This is highlighted by the initiative of major insurance companies and the UN who developed the Insurance Sustainability Goals (iSDGs) as indicators for underwriting. Relating iSDGs to ESG to facilitate reporting will be a key task in the near future.

Some of methodologies described here can be founding pieces to address the new challenges attached to future regulatory requirements. But they surely won't be enough. That's why it is important to think ahead. The initiatives of the insurance industry on the UN «Principles for Sustainable Insurance» and the «Principles of Sustainable Investments» are great forums to discuss new industry wide initiatives.

This will not only help us to improve our business but also reinforce our societal «license to operate». In today's world, stakeholders from consumers over NGOs to governments expect the insurance industry to contribute to society. Supporting sustainability goals is a key proof point for those stakeholders - now and in the years to come.

KATANYA MOORE

Vice President, Head of Regulatory Policy Group, Global Government Relations, MetLife, Inc.

Sustainability is what the insurance business is all about

The term "sustainability" covers a broad range of topics. For MetLife, being "sustainable" means living our purpose and making a positive impact for all our stakeholders, including our employees, customers, shareholders, communities, and society as a whole. For over a century and a half, we have provided financial security and driven economic prosperity. Now, we are building on that legacy, adapting to a changing world, and strengthening our commitments to the environment and climate, equity and inclusivity, health and well-being, and economic growth.

MetLife fully recognizes the challenge and seriousness of climate change and we are committed to continuing our work toward development of sound risk management solutions and playing our part to address the impacts of climate risk. We applaud current public and private sector efforts to develop sound policies and frameworks to assist with the monumental task of meeting the goals of the Paris Agreement.

The financial sector has a significant role to play in achieving the transition to a low carbon economy, but it cannot achieve these goals alone. Therefore, we urge our regulators and standard setters to engage with the insurance industry as we seek solutions to the problems we share. Below, we offer three examples of issues shared by many market participants that could benefit from such solution-seeking engagement.

Encouraging capital flows toward sustainable assets to achieve transition goals is important and clear government policies will be essential to provide support to private sector decisions that can further the decarbonization of our economy. However, as insurers and other financial institutions must balance their desire to offer sustainable choices with their duty to meet fiduciary obligations, prudential rule-making should remain risk-driven. To avoid unintended adverse consequences, including market distortions and instability, proposed disclosure frameworks and prudential rules should prioritize decision-useful data, policyholder and investor protection, the safety and soundness of insurance markets, and financial stability. Consumer demand will lead to market-based solutions that in turn will promote sustainable growth.

We urge our regulators and standard setters to engage...as we seek solutions to the problems we share.

The issue of data quality is acknowledged by policymakers, regulators, and industry alike. Quantification of many climate-related risks is a new endeavor, especially when it comes to the future impact on asset value. Evaluating potential impacts over decades introduces additional uncertainty. Regulators should encourage experimentation to improve data quality and avoid drawing conclusions based on the output of current analysis until the metrics are more mature. Decisions premised on current exploration could have long-term adverse consequences for our industry, financial markets, and the real economy.

Fragmentation is another common concern. However, it is difficult to create a consistent approach to disclosing and managing climate-related risks that can also accommodate mainstream local practices, varying business models and disparate strategic goals.

A principles-based framework could achieve an acceptable level of consistency by setting high-level parameters that would apply across jurisdictions and sectors and align with existing financial filings. That framework could be supplemented by additional guidance to:

- emphasize consideration of risk and materiality to a firm's business
- encourage flexibility to allow continued experimentation for data, model and metric improvement and industry-driven agreement on decision-useful information that could be incorporated into required reporting as appropriate over time.

While adjustments may be necessary, throughout all of this, prudential frameworks should remain risk based.

Consensus and full-partner engagement of global authorities will be important to ensure all points of view are reflected in international efforts to streamline approaches to assessment and disclosure.

Addressing what U.S. Treasury Secretary Janet Yellen has suggested is "the greatest challenge that we collectively face" will require a collective effort and we close with a reiterated call for public-private sector engagement on the above and many other climate and sustainability-related issues under discussion.

RENAUD GUIDÉE

Chief Risk Officer, AXA Group and Chair, Net Zero Insurance Alliance (NZIA)

Climate & sustainability from an insurer perspective

The European Union has launched a wave of regulatory changes at unprecedented speed with the objective to make Europe the first climate neutral continent by 2050 and to support the transition towards a more sustainable economy.

The aim of this emerging sustainable finance framework is to drive a real paradigm shift making sustainability a core part of companies' strategy, governance, and risk management.

AXA is fully committed to this aim and is taking action accordingly:

Over the past 10 years, AXA has gained significant experience in managing and integrating ESG within its business and operations. Building on our expertise and our vision, we are committed to continuing serving our clients and bringing our contribution to building a better, greener and more inclusive world and to catering to the new insurance needs of customers and society.

Sustainability is a core part of AXA's strategy, governance, and risk management.

As per our new Strategic Plan "Driving Progress 2023", we have reframed our sustainability strategy and governance by implementing (i) a list of key indicators included in the "AXA for Progress Index" which sets concrete targets to achieve our sustainability ambition along those two priorities as investor, as insurer and as an organization, (ii) a more encompassing governance to effectively steer the delivery of these targets across the AXA Group, (iii) a stronger link between sustainability objectives and leaders' compensation packages. More recently, AXA committed to turning its insurance business into an enabler for climate transition, through the Net-Zero Insurance Alliance (NZIA).

From a Risk Management perspective, AXA started very early on to identify, understand and take action on non-financial risks, with the aim of building a resilient, 'future proof' organization able to operate with a high level of credibility and trust towards its different stakeholders.

We expect new regulatory developments to drive a higher degree of standardization across the EU and hopefully a global convergence. As the scope of regulation continues to expand, it is key to ensure the right operating and regulatory conditions to increase effectiveness and allow us to fully play our role in the economy as a global investor and insurer. We support the following initiatives to foster the paradigm shift being called by society and public policymakers:

- Disclosure of corporate transition pathways to achieve a broad transformation of the economy;
- Access to standardized, robust, and forward-looking data from issuers and borrowers which receive investment flows;
- Analysis of forward-looking scenarios to enable a better understanding of risks, facilitate the risk transfer with appropriate product offerings or public/private partnerships, hence contributing to resilience. Public-Private Partnerships already play and will continue to play an important role to address sustainability impacts, by promoting insurance to protect communities and citizens.

While the ambition still raises some challenges, we are convinced that they can be turned into opportunities and we stand committed to these efforts towards a sustainable economy.