

ABI ClimateWise Report 2019

Introduction

The past 12 months has seen a step-change in activity and engagement for the ABI and our members on climate change. Following a number of years of relatively little scope for direct policy and regulatory engagement on the issue, over the past 12 months there has been a wide range of developments and initiatives which the ABI has sought to support and influence.

As with many organisations that have a wide and diverse range of stakeholders to service, ensuring the ABI's position in the climate change debate is one which adds value has been an area of careful consideration. However, our role has materialised as one which aims to ensure regulatory and policy developments are fit for purpose for all industry actors; one which shares the best practice of industry leaders with those with more limited resources, to ensure change is achieved as efficiently as possible; and one which provides thought leadership and clarity to an industry which has a diverse and demanding range of challenges to grapple with. We see this as a role which only a trade association can play effectively, and one which we will continue to build upon going forwards.

In addition to the successful increase in engagement on climate change over the past 12 months, the ABI also has a range of planned activities organised for the year ahead, which will ensure we cement ourselves as an organisation dedicated to furthering the insurance industry's response to the most pressing challenge of our time.

The ABI

The Association of British Insurers is the voice of the UK's world leading insurance and long-term savings industry. A productive, inclusive and thriving sector, we are an industry that provides peace of mind to households and businesses across the UK and powers the growth of local and regional economies by enabling trade, risk taking, investment and innovation.

Founded in 1985, the ABI represents around 250 member companies, including most household names and specialist providers. The ABI's role is to:

- get the right people together to help inform public policy debates, engaging with politicians, policymakers and regulators at home and abroad;
- be the public voice of the sector, promoting the value of its products and highlighting its importance to the wider economy;
- help encourage consumer understanding of the sector's products and practices; and
- support a competitive insurance industry, in the UK and overseas.

We welcome the opportunity to report our climate related activity against the ClimateWise Principles. This report represents the year directly following our previous reporting period, i.e. June 2018 – June 2019. Exemptions have been granted for sub-principles 2.2 & 2.3.

Detailed comments

Principle	Sub-Principle	Comments
1. Be Accountable	1.1.	<ul style="list-style-type: none"> • Climate change has risen up the agenda for our Board and Board-level committees in the past 12 months. • In June 2019, climate change, and specifically the prudential regulatory implications of climate change for our industry, was the main agenda item for our Prudential, Financial and Taxation Committee (PFTC), comprising primarily of CFO/CROs from our largest member firms. During this discussion, two key decisions were made: <ul style="list-style-type: none"> ○ For the ABI to become a formal supporter of the Financial Stability Board Taskforce on Climate-related Financial Disclosures (see sub-principle 6.1); ○ For the ABI to move from a ‘reactive’ stance regarding climate change regulation, to a ‘facilitative’ and in some cases ‘proactive’ stance. <ul style="list-style-type: none"> ▪ In practice, this means the ABI has a clear mandate to, across the board, take a more front-footed approach to engagement with regulators and other stakeholders, and to facilitate better engagement from member firms on climate change through the sharing of best practice and learning events. ▪ Additionally, in some cases, the ABI has a refreshed mandate to proactively engage in identifying and developing next regulatory steps for our industry to better transition to a low-carbon economy. • <i>Planned activities:</i> In October 2019, the ABI Board, comprising primarily of the CEOs from our largest member firms, will discuss climate change more broadly. This will lead to a more senior, and more wide-ranging steer regarding industry’s approach to climate change.
	1.2.	<ul style="list-style-type: none"> • Below our Board level Committees, the ABI has a wide range of more focussed Committees, for detailed policy discussions, many of which have discussed climate change in the past 12 months: <ul style="list-style-type: none"> ○ For example, the ABI Prudential Regulation Committee (PRC) which meets 10 times a year, has had climate change on the agenda for 8 of the last 10 meetings, with discussions covering domestic, EU and international level developments and initiatives relating to the prudential implications for insurers from climate change; ○ Climate change and its implications has also been on the agenda for the ABI Financial Reporting Committee, the ABI Conduct Regulation Committee, the ABI General Insurance Committee and the ABI Long-Term Savings Committee (all of which meet quarterly) at least once in the past 12 months.

		<ul style="list-style-type: none"> • Outside of Committee discussions with member firms, changes have been made internally to increase capacity to address climate change related requirements: <ul style="list-style-type: none"> ○ In January 2019, a Proactive Action Team (PAT) was set up, comprising of four staff members, to focus on climate change. This was designed to not only increase capacity, but also to better reflect the cross-organisational nature of the issue. The outcome of this team has been a comprehensive workplan focussing on regulation, communications, public affairs and the sharing of best practice; ○ Additionally, in July 2019, further managerial resource was dedicated to this issue. The appointment of a ‘Manager – Prudential Regulation’, whose primary focus will be on climate change, will provide further managerial oversight and accountability on this key issue.
2. Incorporate climate-related issues into our strategies and investments	2.1.	<ul style="list-style-type: none"> • For a trade association, our performance is determined by value provided to member firms. • As expectations from regulators, investors, the public and a wide range of other external stakeholders increase regarding climate change, there are a range of possible implications for members. These may materialise in the short, medium or long-term: <ul style="list-style-type: none"> ○ In the short-term, the ABI provides value to members through reactive responses to developments on behalf of the insurance industry (see sub-principle 6.1); ○ In the medium-term, the ABI is able to provide value to members through developing industry positions on various aspects of climate change, and through developing industry’s approach to climate change through learning events for example (see responses to Principles 5 &6); ○ In the long-term, the ABI provides value to members through horizon scanning and thought leadership, by highlighting risks and opportunities that may arise to them.
	2.2.	<ul style="list-style-type: none"> • Exemption granted on 18/07/2019
	2.3.	<ul style="list-style-type: none"> • Exemption granted on 18/07/2019
3. Lead in the identification, understanding and management of climate risk	3.1.	<ul style="list-style-type: none"> • As a trade association, the risks and opportunities presented by climate change will primarily impact us indirectly, through our member firms, and as such our processes for identifying, assessing and managing climate-related risks and opportunities are focussed on highlighting upcoming issues to our members. • As such, the ABI monitors all relevant developments regarding climate change policy, regulation or news. <ul style="list-style-type: none"> ○ This monitoring work can be achieved efficiently through our dedicated Sustainability Distribution list, for example, which was set up in October 2018, to allow interested parties to keep up to date with the latest developments. This list now has over 50 representatives from a wide range of our member

firms. This list not only allows us to ensure relevant information reaches the right people efficiently, but also allows us to efficiently gather input from members on key issues as required.

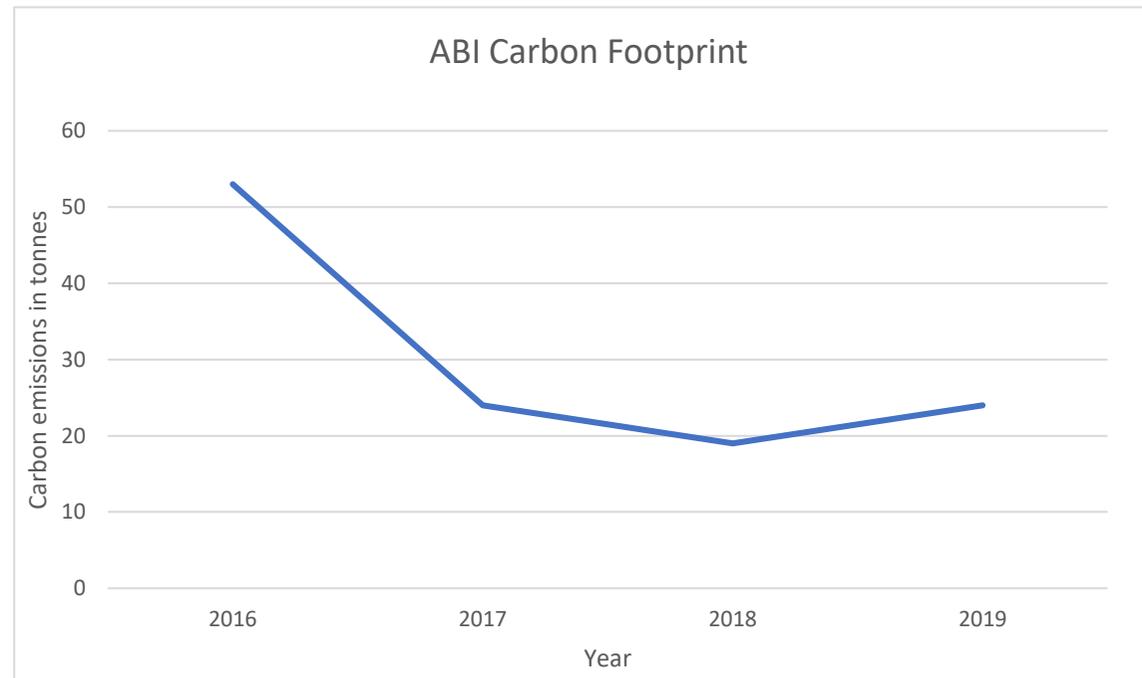
- If a risk or opportunity is identified, the ABI Committee structure allows for these to be considered by the required industry experts, so they can be effectively assessed and managed:
 - For example, when the FCA published their consultation [CP19/15](#) 'Independent Governance Committees: extension of remit', which included proposals to expand the remit of Independent Governance Committees to better take into account ESG (Environmental, Social & Governance) considerations, members of the ABI Conduct Regulation Committee were alerted to the development, and the potential risks and opportunities of the proposals were analysed and assessed by ABI staff and industry experts from the Committee. The potential outcomes will be managed through an industry response and work with members when proposals are finalised.
- This process allows for climate-related risks and opportunities to be effectively identified, assessed and managed. The outcome of this process is then able to inform members of their next steps and better inform industry policy positions.

3.2.

- As a trade association, the ABI is unable to directly engage in the development of new insurance products. However, all of our work on climate change has the ability to better inform industry and policy makers on ways to better adapt to and mitigate against climate-related issues. Some examples of this include:
 - The ABI reviewed the PRA's [Physical Risk Framework](#) and provided feedback on its usability and the need for the PRA to seek feedback to enhance its development. We also shared the framework throughout our extensive network, alerting broader industry to this important tool;
 - Through active engagement in the ClimateWise Managing Committee, the ABI played a role in developing the ClimateWise Transition Risk and Physical Risk Frameworks. Additionally, through our extensive network, we shared the two key tools with broader industry, to help inform responses to these risks;
 - The ABI works closely with the Environment Agency (EA), Natural Resources Wales (NRW), Scottish Environment Protection Agency (SEPA) and Northern Ireland Environment Agency (NIEA) to engage on raising awareness of flood risk and improve understanding and information sharing on flood risk mapping and modelling;
 - The ABI worked closely with Flood Re in the development of [research](#) focussing on the importance of inland flood defences, and the financial impact they can have.

4. Reduce the environmental impact of our business 4.1 – 4.4

- The ABI is a relatively small organisation with limited resources to measure our environmental impact in detail. In previous years, the ABI has reported our carbon footprint using the National Energy Foundation [Carbon Calculator](#), and will continue to disclose through this method for comparability purposes.
- Following sharp decreases in our carbon footprint from 2016 – 2018, this year has unfortunately seen an increase from 19 tonnes of carbon to 24 tonnes of carbon, equalling our 2017 figure.
- Although this is clearly disappointing, our 2019 level is still much lower than pre-2017, and planned activities for the upcoming year should help to achieve a downward trend going ahead (see below).



- Aside from our carbon footprint, in August 2018, the ABI provided all current staff, and made a commitment to provide all future staff, with a reusable water bottle and coffee cup. Prior to this, single-use plastics were provided for water and hot beverages. As such, this initiative has reduced our single-use plastic use significantly.
- The ABI continues to engage with all suppliers to ensure they have their own environmental policy.

		<ul style="list-style-type: none"> • <i>Planned activities:</i> As part of the work of the PAT, the ABI is currently looking into how best to reduce our carbon footprint. From previous ClimateWise reports, it has been clear travel has been a significant contributor to our footprint. As a result, the ABI is exploring carbon offsetting options as part of our travel policy. • <i>Planned activities:</i> The ABI will also look to hold an internal learning event on climate change, focussing on the role insurers play in the debate, but also on personal changes staff can make to make a difference.
<p>5. Inform public policy making</p>	<p>5.1.</p>	<ul style="list-style-type: none"> • The ABI has engaged extensively with a wide range of regulatory and policy initiatives in the past 12 months, at the UK, EU and International level. • UK – Regulatory <ul style="list-style-type: none"> ○ The ABI has engaged extensively with the PRA on their climate change work, responding to their consultation CP23/18 ‘Enhancing banks’ and insurers’ approach to managing the financial risks from climate change’ with positive and constructive feedback, and helping members as they develop their response to the requirements. The ABI also engaged with the PRA in their development of the climate change scenarios within the 2019 Insurance Stress Test, an initiative we were broadly supportive of. In April, the ABI was asked to review the PRA Physical Risk Framework, where we suggested the PRA should seek feedback on the framework to allow further development, a suggestion which was taken on board. ○ The ABI has also engaged with the FCA, in responding to their Discussion Paper on climate change and green finance, and formulating a response to the FCA’s consultation on Independent Governance Committees and the extension of their remit to better taken into account ESG considerations. ○ The ABI has engaged successfully with the PRA/FCA joint Climate Financial Risk Forum, with representation on all four of the working groups set up to feed into the Forum. The working groups, on scenario analysis, risk management, innovation and disclosure requested trade association representation to ensure the needs of broader industry could be represented. The ABI has successfully realised this role, with the submission of extensive evidence to both the scenario analysis and risk management working groups on the key challenges firms with limited resources face in their engagement in each area respectively, and how the intended output from each working group can best address these challenges. • UK – Policy <ul style="list-style-type: none"> ○ The ABI’s Buildings Blueprint provides an overview of the extensive work we engage in to reduce flood risk, with further details on each point below.

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- The ABI has engaged closely with [Flood Re](#) on ensuring the scheme works well for members and their customers, and is involved in discussions regarding what comes after Flood Re. The ABI was instrumental in founding Flood Re.
 - The ABI has worked to ensure no inappropriate development in flood risk areas and the installation of Sustainable Drainage Systems in new build areas to not increase the risk of surface water flooding. The includes recently writing to all Local Authority CEOs to remind them that Flood Re doesn't cover properties built after 01 Jan 2009.
 - The ABI has worked extensively to improve awareness of and insurer confidence of resistant and resilient repair when a property has experienced flooding, including involvement in the Defra Property Level Resilience Roundtable and the development of the Code Of Practice to improve certification, standards and installation of resistant and resilient measures.
 - The ABI engaged directly with BEIS in their formation of the Government's [Green Finance Strategy](#), to reiterate the importance of the recommendations made in the [Green Finance Taskforce Report](#) of March 2018.
 - EU
 - The ABI has engaged, via Insurance Europe, with a number of aspects of the European Commission's [Action Plan on Sustainable Finance](#).
 - In December 2018, the ABI provided input to the Insurance Europe response to EIOPA's draft [Technical Advice](#) on sustainability risks and factors in the Delegated Acts under Solvency II and the Insurance Distribution Directive.
 - Additionally, in July 2019, the ABI provided input to the Insurance Europe response to EIOPA's [draft Opinion](#) on sustainability in Solvency II, which will feed into the Solvency II 2020 Review.
 - In both cases, the extensive work we have done on this policy area in comparison to other trade associations across the continent has allowed us to lead conversations and ensure more positive and constructive responses are constructed.
 - The ABI also provided input to the European Commission [consultation](#) on the update of non-binding guidelines on non-financial reporting.
 - International
 - The key international initiative that the ABI has been engaged with has been the FSB [Task Force on Climate-related Financial Disclosures](#), and our decision to publicly support the framework (see sub-principle 6.1).
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		<ul style="list-style-type: none"> • Third sector <ul style="list-style-type: none"> ○ The ABI has engaged with a number of organisations in the third sector, including discussions with ClientEarth and Share Action. The aim of these engagements has been to better promote the good work the industry is already doing, but also to hear in more detail the concerns that these organisations have. This is evidence of the ABI identifying and assessing potential reputational risks for members (sub-principle 3.1).
	5.2.	<ul style="list-style-type: none"> • The ABI has not conducted any research itself this year, although it has a rich body of historical research to call upon. • However, the ABI has supported a wide range of initiatives, including: <ul style="list-style-type: none"> ○ The ABI reviewed the PRA’s Physical Risk Framework and provided feedback on its usability and the need for the PRA to seek feedback to further development. We also shared the framework throughout our extensive network, providing broader industry with this important tool. ○ The ABI provided extensive research to the PRA/FCA Climate Financial Risk Forum scenario analysis and risk management working groups, on the key challenges firms face in their work in each area. This process will ensure the output from each working group is better suited to the needs of those at which it will be aimed. ○ Through active engagement in the ClimateWise Managing Committee, the ABI played a role in developing the ClimateWise Transition Risk and Physical Risk Frameworks. Additionally, through our extensive network, we share the two key tools to broader industry, to help inform their response. ○ The ABI works closely with the Environment Agency (EA), Natural Resources Wales (NRW), Scottish Environment Protection Agency (SEPA) and Northern Ireland Environment Agency (NIEA) to engage on raising awareness of flood risk and improve understanding and information sharing on flood risk mapping and modelling. ○ The ABI worked closely with Flood Re in the development of research focussing on the importance of inland flood defences, and the financial impact they can have.
6. Support climate awareness amongst our	6.1.	<ul style="list-style-type: none"> • The ABI has been vocal in its views regarding climate change to members, external stakeholders and to the public. • In the past 12 months, the ABI has issued press releases on the PRA’s consultation on the financial risks from climate change, on barriers to insurers investing in greener assets, on the importance of inland flood defences, on the Government’s Net-Zero target and on Government’s Green Finance Strategy. This acts as evidence as the ABI acting as a thought leader on the issue.

customers /
clients

- Additionally, in July 2019, the ABI [announced](#) public support for the FSB [Task Force for Climate-related Financial Disclosure](#).
 - This decision, which was signed off by our Board-level Prudential, Financial and Taxation Committee is a clear example of the ABI showing leadership and communicating our views and analysis to members.
 - Although we are unable to mandate our members to use the framework, our role will be one of promoting it to members, encouraging its use by highlighting the value of the framework, and facilitating better disclosures through learning events (see sub-principle 6.2).
- Another example of the ABI showing leadership in this area comes from our Director General, Huw Evans, providing a thought provoking essay on the role of insurers in driving a greener future to the Social Market Foundation's [publication](#) on how sustainable finance can tackle the climate emergency. This series of essays combines input from a range of financial services leaders on how their industry could support a transition to a low carbon economy.
- The ABI also has a wide range of weekly, monthly and quarterly newsletters, aimed at audiences from across industry. Although the newsletters will cover a range of issues, climate-related developments are often included.

6.2.

- The ABI has held a number of events, or dedicated agenda items within events, on climate change in the past 12 months, with the aim of informing members and the public of the risks and opportunities they may be exposed to as a result of climate change:
 - In November 2018, the ABI hosted a PRA organised roundtable regarding their consultation paper [CP23/18](#) 'Enhancing banks' and insurers' approach to managing the financial risks from climate change'. The roundtable provided an opportunity for industry to express views and concerns regarding the PRA's proposals at an early stage;
 - In May 2019, during the ABI Prudential Regulation Seminar, a keynote speech and subsequent panel session was dedicated to climate change and sustainable finance. This provided an opportunity for over 100 delegates to hear from industry leaders, the PRA and external stakeholders, on how and why they should engage in the climate change and sustainable finance agenda;
 - In June 2019, the ABI held an event titled 'Building a resilient future for the UK's property insurance market', which included discussions on the benefits of flood defences in the UK, marking the launch of key Flood Re [research](#), and conversations around resilient homes for the future, including a panellist from the Committee on Climate Change;

		<ul style="list-style-type: none"> ○ In July 2019, the ABI held an event titled ‘Practical steps to comply with the PRA’s guidance on the financial risks from climate change’. The breakfast briefing brought together the PRA, a consultancy and an industry leading firm to provide members with practical tools and information to better satisfy the PRA’s guidance, and to better engage with the climate change agenda.
		<ul style="list-style-type: none"> • The ABI also has a wide range of consumer facing resources to provide support to insurance customers who may be affected by the impacts of climate change, especially severe flooding. The ABI Flooding pages, which are regularly updated, include a Guide to Responding to Major Floods and a Guide to Resistant and Resilient Repair after a Flood, alongside a range of other resources and support for consumers. • <i>Planned activities:</i> The ABI has a series of learning events planned for the next 6 months. On 6 September, the ABI will be hosting an event focussing on climate-related scenario analysis. In December 2019, an event will be held on fiduciary duties relating to climate change and broader ESG considerations. Finally, in January 2019, an event will be held on climate-related disclosure, specifically TCFD disclosures. All events will aim to share industry best practice and spark debate. • <i>Planned activities:</i> The ABI also plans to dedicate a keynote speech to climate change at our flagship Annual Conference in February 2019.
7. Enhance reporting	7.1.	<ul style="list-style-type: none"> • The ABI has submitted its report against all ClimateWise sub-principles (aside from 2.2 & 2.3, for which exemptions were granted), on time and in full.
	7.2.	<ul style="list-style-type: none"> • The ABI will make our 2019 Climate-Wise Principles report publicly available on our website. • We do not produce an annual report.
