

READ THE REVIEW SYNTHESIS

# Milliman Climate Change Reporting Barometer



FOREWORD

# Presentation of the first Milliman Climate Change Reporting Barometer



**OBJECTIVE**

The objective of this analysis is to assess the level of maturity of European insurance and reinsurance companies' climate change reporting against the Task Force on Climate-Related Financial Disclosures (TCFD) requirements.

**SCOPE**

To conduct this analysis, we studied the 2022 climate and sustainability reports of 20 European insurance and reinsurance companies, based on reports published in 2023, against TCFD requirements.

**APPROACH**

This study was performed in line with the TCFD recommendations and guidelines, including an assessment of strategy, governance, risk management and metrics as well as targets related to climate change.

**CONTENT OF THIS PUBLICATION**

The following publication is a summary of our detailed study's key findings. For a more detailed discussion on the review findings please get in touch with one of our team members shown towards the end of the document.

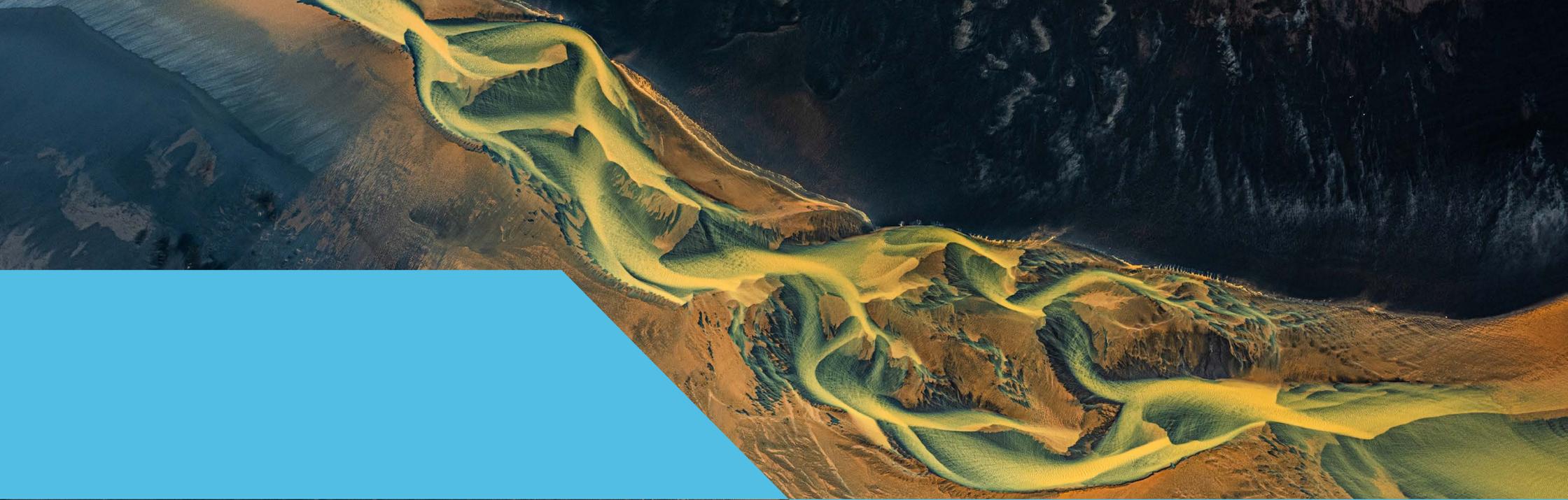


## INTRODUCTION

# TCFD reporting requirements by pillar and our evaluation criteria.

	TCFD PILLAR	TCFD REPORTING REQUIREMENT	OUR EVALUATION CRITERIA
<p>The Task Force on Climate-Related Financial Disclosures (TCFD) was developed by the Financial Stability Board (FSB) to set out recommendations on the types of information that companies should disclose to support investors in appropriately assessing and pricing a specific set of risks related to climate change.</p>	Strategy	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material	<ol style="list-style-type: none"> <li>1. Climate-related opportunities</li> <li>2. Carbon footprint strategy</li> <li>3. Resilience of the strategy</li> </ol>
	Governance	Disclose the organisation's governance around climate-related risks and opportunities	<ol style="list-style-type: none"> <li>1. Governance structures around the climate strategy</li> <li>2. Operational teams' involvement in the climate strategy</li> </ol>
<p>Although the TCFD framework is not mandatory, it is widely recognised and adopted in the European market.</p>	Risk Management	Disclose how the organisation identifies, assesses and manages climate-related risks	<ol style="list-style-type: none"> <li>1. Identification and assessment of climate-related risks</li> <li>2. Climate-related risks quantification</li> <li>3. Climate-related risks integration in the risk management</li> </ol>
<p>The TCFD recommendations are structured around the four pillars shown in the table to the right.</p>	Metrics and Targets	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	<ol style="list-style-type: none"> <li>1. Metrics used to assess climate-related risks and opportunities</li> <li>2. Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions</li> <li>3. Targets to manage climate-related risks &amp; opportunities</li> </ol>





# Strategy

Actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.



## STRATEGY

### 1. CLIMATE-RELATED OPPORTUNITIES

A clear focus of the market on the net zero strategy and transition risk management, with less emphasis on physical risk.

Most insurers state that environmental issues have become one of their strategic priorities. Several climate opportunities are identified in their reports, such as:

- Investments in technology and infrastructure needed to transition away from carbon emissions.
- Supporting the economy to decarbonise investment portfolios.
- Creating and developing products that are environmentally-friendly and incentivise climate-positive behaviour from customers.

However, insurers tend to focus more on opportunities on the asset management side and net zero investment solutions than on insurance products and related opportunities.

The most mature insurers present a complete analysis of the opportunities created by climate change and the impacts on their business model in the short or long term (for example, the impact of transition and physical risks on insurance product design, pricing, underwriting, reinsurance strategy, prevention mechanisms for the policyholders...).

### 2. CARBON FOOTPRINT STRATEGY

A strong net zero ambition in the long term that requires clearer short- and medium-term action plans.

All insurers aim for long-term net zero goals including:

- Aligning asset portfolios with the 1.5°C Paris target.
- Achieving net zero operational carbon.

Despite stated ambitions, reports suggest a focus on asset decarbonisation, overlooking insurance portfolio emissions.

Two main long-term horizons are typically discussed:

- Net zero by 2050 to meet Paris Agreement.
- More ambitious targets set for 2040.

Mature companies set interim targets to limit global warming to 1.5°C or achieve climate neutrality by 2050. They outline short- and medium-term actions alongside long-term decarbonization strategies to reach net zero emissions.

- Decarbonisation timelines for their investment portfolios.
- Reducing GHG emissions in operations and supply chain.
- Developing climate-conscious products and services.
- Reductions in real estate carbon intensity.

### 3. RESILIENCE OF THE STRATEGY

Disclosed management actions focused on transition risk with a lack of clarity on the physical ones.

Many insurers discuss management actions to mitigate climate-related risks.

Based on disclosed information (e.g., product/pricing evolutions, reinsurance strategy, incentives to implement specific prevention mechanisms), these actions are primarily focused on transition risk mitigation, with few related to physical risks.

The expected quantitative impacts of management actions are not always disclosed.





# Governance

Organisation's governance around climate-related risks and opportunities.



## GOVERNANCE

### 1. GOVERNANCE STRUCTURES AROUND THE CLIMATE STRATEGY

A clear governance structure to achieve the ambitions defined in the climate strategy.

All of the insurers included in our analysis communicate clearly about the implementation of a governance structure and its objectives around their climate strategies, based on their stated climate ambitions.

They have established climate-related committees to discuss and oversee climate-related matters (e.g., a sustainability committee, risk committee, sustainability steering committee etc.).

Most companies communicate a group remuneration framework based on an appropriate Environmental, Social and Governance (ESG) and transition plan implementation.

This consideration is aligned with the last updates to the Solvency II Delegated Regulations and the UK policy statement 3/19 that require including sustainability factors, including climate risk, within insurer's governance frameworks.

### 2. OPERATIONAL TEAMS' INVOLVEMENT IN THE CLIMATE STRATEGY

Need to strengthen disclosed information on how executive management team vision is translated in operational governance.

Most of the insurers describe in their reports the roles and responsibilities of the top management regarding the implementation of their climate risk strategy. However, the translation of these top management objectives into specific actions within each operational team are not always specified.

It is worth highlighting that for asset management activities, companies have been reporting a clear and detailed governance of their climate strategies for the last couple of years. Notably, socially responsible investment (SRI) committees, regular monitoring of climate-related key performance indicators (KPIs) with asset managers and engagement and dialogue/setup of transition plans with highest-emitting issuers per sector.





# Risk Management

How the organisation identifies, assesses and manages climate-related risks.



## RISK MANAGEMENT

### 1. IDENTIFICATION AND ASSESSMENT OF CLIMATE-RELATED RISKS

A generic identification of the climate risks lacking clear links with the insurer's profile and exposures.

At this stage, and based on disclosed information, most insurers address the identification and assessment of risks related to climate change in a generic manner, without a clear link between these risks and their actual exposure profiles.

As for the strategy pillar, insurance risks related to transition are the main focus, with less disclosed information related to physical risk.

### 2. CLIMATE-RELATED RISKS QUANTIFICATION

A relatively low level of quantitative analysis disclosed by the market, whereas this is a key component of risk management-related disclosures.

For the identified risks (mainly transition risk), some companies mention performing materiality assessments.

However, it seems that many of the insurers do not disclose clear evidence of their ability to quantify climate-related risks and assess their impacts in the short, medium and long terms.

To assess the materiality of climate-related risks, the most advanced insurers use models and simulations to estimate the impacts, such as:

- Climate stress testing, leveraging for some of them stress test exercises organised by local regulators.
- Climate Value At Risk with at least three scenarios (again, mainly for transition risks).

At this stage, there does not appear to be a market framework that can be leveraged to quantify both transition and physical risks for the various time horizons. Multiple stakeholders (regulators, insurers, reinsurers, brokers, data-providers, consultants, startups etc.) are working on this topic. Quantification of climate-related risks should improve in the coming years.

### 3. CLIMATE-RELATED RISKS INTEGRATION IN THE RISK MANAGEMENT SYSTEM

The development of comprehensive and robust climate-related risk management frameworks limited by low capabilities on risk quantification.

The risk management framework seeks to set out the process for the identification, assessment, control, monitoring and management of all material climate-related risks based on predefined indicators and limits.

The majority of the reports address the integration of climate-related risks within the overall risk management system qualitatively, without evidencing formal risk appetite metrics, operational limits etc.

Given that the reports show an early stage of development in both quantification capabilities and risk metrics (as detailed in the "Metrics and Targets" section), which are prerequisites for an adequate risk management framework, the disclosed information suggests that insurers' climate risk management frameworks are still a work in progress.





# Metrics and Targets

Metrics and Targets used to assess and manage relevant climate-related risks and opportunities where such information is material.



## METRICS AND TARGETS

### 1. METRICS USED TO ASSESS CLIMATE-RELATED RISKS AND OPPORTUNITIES

A clear focus on carbon footprint-related metrics with limited risk metrics disclosed, mainly CVAR.

Generally, insurers disclose more metrics emphasising carbon footprint and portfolio GHG emissions than risk management metrics or metrics quantifying potential financial losses arising from physical and transition risks.

Some insurers are using Climate Value at Risk (CVAR) as the main risk management metric. Under current methodology, this metric has limitations in terms of risks covered, data availability, quality and granularity, time horizons and underlying assumptions (see next page).

The reports generally lack transparency in identifying and communicating these limitations.

### 2. SCOPE 1, SCOPE 2, SCOPE 3 GHG EMISSIONS

Among the two material sources of GHG emissions, only the investments is addressed by the market at this stage, with the emissions related to the insurance contracts still to be tackled.

The majority of insurance companies reviewed disclose Scope 1 and 2 GHG emissions related to their direct emissions. Insurers are at different degrees of maturity and progress in terms of establishing methods and basis for calculating Scope 3 emissions, given their increased complexity.

Currently, most insurers disclosing Scope 3 GHG emissions only cover the emissions coming from their own investment portfolios.

Another material source is related to the insurance contracts themselves. This source is not covered in the reports at this stage (knowing that no regulatory nor market framework to estimate the GHG emissions of insurance contracts has been developed yet).

Finally, only the most mature reports disclose detailed information on data quality and the computation methodologies used to estimate GHG emissions.

### 3. TARGETS USED TO MANAGE CLIMATE RISKS AND OPPORTUNITIES

High-level targets for carbon footprint metrics and limited targets for risk metrics.

The main targets disclosed (and performance against these targets) are high-level ones related to carbon footprint metrics such as:

- Carbon intensity targets.
- GHG emission targets.

Overall, the metrics and targets are only disclosed at a high level, matching the global ambitions communicated in the climate strategy (see “Strategy” section).



# Focus on CVAR

## CVAR CHALLENGES

### NUMBER OF ACTORS DISCLOSING A CVAR:

Out of the 22 reviewed reports, five CVARs have been disclosed. However, no common market framework-related CVAR computation has been developed at this stage.

### DATA QUALITY AND COMPUTATION METHODOLOGY:

Reports are lacking transparency in identifying and communicating data quality, data history, granularity, scope coverage and computation methodology.

### RISKS COVERED:

A large majority of reports disclose transition and physical risk CVAR on asset market values, only a few of them disclose CVAR considering changes in assets and liabilities.

### INTERNAL USAGE:

There is no information in the reports on how this indicator is used to evaluate the impacts of strategic options for managing climate-related risks.

## CVAR DISCLOSURES

Actor	Risk type	% of A/L coverage	# of scenarios disclosed	Scenario details/typologies	Time horizon	Target
#1	<ul style="list-style-type: none"> <li>Transition risk</li> <li>Physical risks<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>ASEAN Bonds</li> <li>% of coverage ND</li> </ul>	5	<ul style="list-style-type: none"> <li>Too late too sudden scenario (IEA BD2S) below &lt; 2°C</li> <li>Policy shock, technology shock, double shock, confidence shock</li> <li>Orderly, disorderly, no additional policies</li> <li>Orderly, disorderly, no additional policies</li> <li>2°C - IPCC 8.5 for full damages scenario</li> </ul>	<ul style="list-style-type: none"> <li>2025</li> <li>2050</li> <li>2060</li> </ul>	ND
#2	<ul style="list-style-type: none"> <li>Transition risk</li> <li>Physical risks<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>74% shares</li> <li>100% Corp bonds</li> </ul>	4	<ul style="list-style-type: none"> <li>Scenario RCP8.5 (3°C=&gt;5.5°C)</li> <li>Scenario RCP4.5 (1.5°C)</li> <li>Scenario (2°C)</li> <li>Scenario (3°C)</li> </ul>	<ul style="list-style-type: none"> <li>2022-2035</li> </ul>	ND
#3	<ul style="list-style-type: none"> <li>Transition risk</li> <li>Physical risks<sup>1</sup></li> <li>Strategic risk</li> </ul>	<ul style="list-style-type: none"> <li>ND</li> </ul>	5	<ul style="list-style-type: none"> <li>1.5° Orderly</li> <li>1.5° Disorderly</li> <li>2° Orderly</li> <li>2° Disorderly</li> <li>3° NDC</li> </ul>	<ul style="list-style-type: none"> <li>2100</li> </ul>	ND
#4	<ul style="list-style-type: none"> <li>Transition risk</li> <li>Physical risks<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>47%</li> </ul>	4	<ul style="list-style-type: none"> <li>1.5°C (aggressive mitigation)</li> <li>2°C (strong mitigation)</li> <li>3°C (some mitigation)</li> <li>4°C (no further mitigation)</li> </ul>	<ul style="list-style-type: none"> <li>2100</li> </ul>	ND
#5	<ul style="list-style-type: none"> <li>Transition risk</li> <li>Physical risks<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>&lt;5%</li> </ul>	3	<ul style="list-style-type: none"> <li>1.5°C scenario</li> <li>2°C scenario</li> <li>3°C scenario</li> </ul>	<ul style="list-style-type: none"> <li>2050</li> </ul>	ND
#6	<ul style="list-style-type: none"> <li>Transition risk</li> <li>Physical risks<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>Equities and corporate bonds</li> <li>Government bonds</li> <li>Real estate</li> <li>P&amp;C underwriting portfolio</li> <li>% of coverage ND</li> </ul>	6	<ul style="list-style-type: none"> <li>Nationally determined contributions (NDC)</li> <li>Below 2°C</li> <li>Divergent net zero</li> <li>Delayed transition</li> <li>Current policies</li> <li>Net zero 2050</li> </ul>	<ul style="list-style-type: none"> <li>2100</li> <li>2050</li> <li>2030</li> </ul>	ND





# Wrap up



As illustrated by our analysis of 20 climate reports, there is a gap between disclosed information and TCFD requirements and one would expect this gap to be filled in future iterations of disclosed information (notably within the first Corporate Sustainability Reporting Directive reports in 2025).



There is room for improvement under the TCFD pillars of Risk Management and Metrics and Targets:

- Most insurers are fairly advanced in their communications on the Strategy and Governance pillars.
- Based on disclosed information, there appears to be room for improvement regarding the Risk Management and Metrics and Targets pillars. Insurers have focused mainly on the asset side, but it is anticipated that future disclosures will pay more attention to the liability side as well.

Based on this gap analysis, compliance with the Corporate Sustainability Reporting Directive (CSRD) required from early 2025 onwards appears to be a major challenge:

- The CSRD reporting requirements regarding climate change are more stringent than TCFD (e.g. a detailed transition plan is expected regardless of Paris agreements, detailed financial impacts at short-, medium- and long-term time horizons for risks and opportunities arising from both transition and physical risks...).
- The CSRD reports will have to be much more structured, detailed, justified and audited by a third party.

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## ABOUT MILLIMAN

Milliman is a leading consultant to the insurance industry, advising most of the world's largest insurers. We combine more than 75 years of risk expertise with advanced data analytics and market-leading technology solutions.

Our expertise on climate change is based on well-tried and tested methods which are designed to help practically navigate through the complexity to choose the right strategy and deliver a framework that supports your ambition and needs, capturing potential opportunity as well as managing risk.

We help clients with:

- Strategy - helping to embed climate change risk considerations into business plans
- Governance - helping boards to determine their climate change strategy and risk appetite, and understand the risks to the wider strategy arising from climate change
- Risk Management - embedding climate change into the risk management framework and operational resilience framework
- Metrics and Targets - framework to allow firms to demonstrate progress in delivering on climate change agenda through insightful measurement and disclosure

With offices across the globe, we have in-depth knowledge of the local regulations in every market we serve, and actively invest in research to keep our clients one step ahead in a rapidly changing world.

