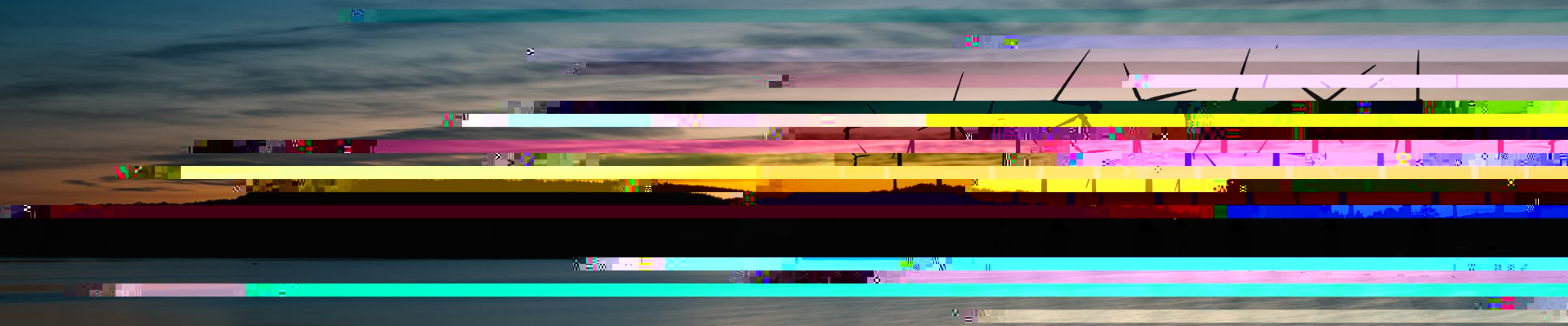
Sustainable underwriting

Key steps to achieving a net zero insurance balance sheet



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"Once an insurer has agreed which emissions will be measured, it can make a decision on how it attributes emissions to a particular insurance transaction.

Last year's United Nations Climate Change Conference, known as COP26, ended with a commitment to "phase down" coal, stop deforestation, reduce methane emissions by the end of the decade, and accelerate the move towards renewable energy.

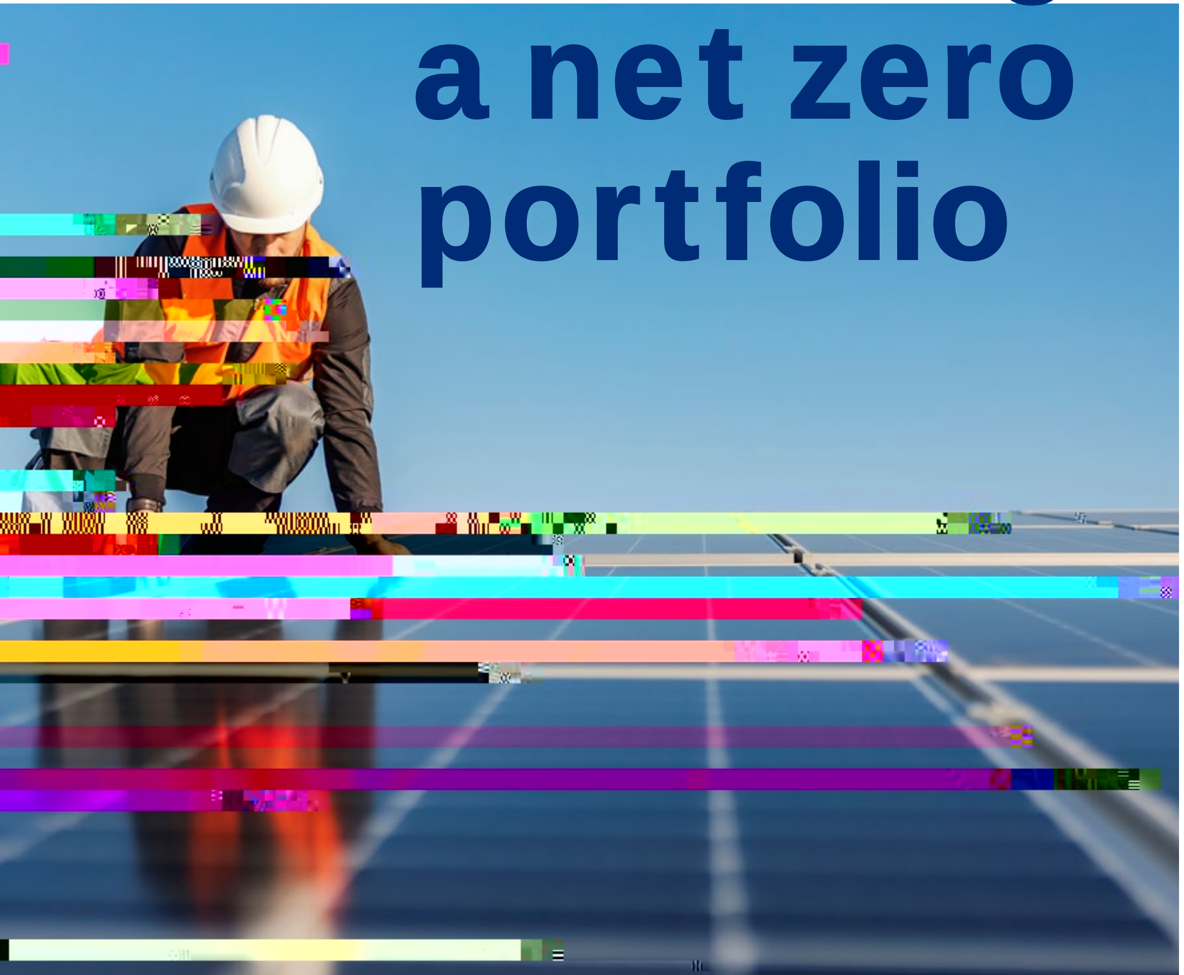
In the build up to COP26, and following the climate conference, there has been a continuation of investors and corporations announcing their commitments to delivering net zero emissions. So far, about 40%
aligned to a net zero target, while more than 20 global insurers and reinsurers have joined the Net Zero Insurance Alliance (NZIA). And with leading scientists estimating that about 90% of global GDP is covered by a net zero target, more and more carriers are likely to follow suit.

This raises the question of how insurers and underwriters can steer the emissions associated with underwriting to net zero. As they start out on their net zero journey, three main areas of enquiry are likely to arise:

1. How to measure emissions and what to measure.
2. Armed with measurement, how they can steer their portfolio towards net zero emissions.
3. How they can operationalize their strategy to achieve their ambition and commitments, while still protecting

   within a competitive marketplace.

Achieving a net zero portfolio



How is an insurer likely to steer a portfolio towards net zero emissions? Typically, carriers drive and manage change around industry or sector-based strategies. In this instance, many carriers have started with the most emissions-intensive sectors, including oil and gas, power, and so on.

By using benchmarks — standards to measure performance — and integrated assessment models from climate scientists or institutions, such as national energy agencies, insurers have set possible routes towards net zero. They are then able to analyze how their portfolio lines up to that path and start to answer the question of whether the key milestones for the transition are achievable for a particular sector they are providing cover for. If the goals are achievable, insurers can then introduce a framework to push these targets in the sectors they are insuring while at the same

competitive tensions.

Another consideration is the consistency of approach on the underwriting side of the business,

happening within the carrier's own investment portfolio. This inward and outward alignment is

be more relevant to certain insurers than others.

There is also the question of whether the Russia-

Application

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