insurance europe

Position paper

Response to proposed TCFD guidance on climate-related metrics and financial impacts

Our reference:		Date:	July 2021
Referring to:	TCFD proposed guidance on climate-related metrics and financial impacts		
Related documents:			
Contact person:	Andrea Pintus, senior policy advisor	E-mail:	pintus@insuranceeurope.eu
Pages:	12	Transparency Register ID no.:	33213703459-54

General comments

The European insurance industry is committed to the fight against climate change and supports the objective of European policymakers to reduce EU greenhouse gas emissions by at least 55% by 2030.

As sustainability, and in particular climate change, is a global issue, a global approach and international coordination are necessary. Insurance Europe supports the existing Task Force on Climate-related Financial Disclosures (TCFD) framework and welcomes the TCFD's paper on "Proposed Climate-related Metrics, Targets, and Transition Plan Guidance" because it:

- helps set up the right level of ambition to curb climate change;
- provides a framework into which European developments on disclosure can fit while creating the basis for developing international convergence;
- takes a double materiality approach; and,
- integrates transition plans.

Insurance Europe believes that the TCFD's work on a climate-related reporting framework can play a key role in facilitating global coordination efforts between public bodies, which is needed to promote sustainable finance via global standards and best practices.

Climate-related disclosure by companies in all sectors would be beneficial for insurers' investment and underwriting activities. Overall, the recommendations of the TCFD are a positive step towards a low-carbon economy. On the investment side, they can improve insurers' assessment of sustainability risks and help them to better plan their long-term investment strategies. For example, insurers will be able to assess investments in the equity or debt of companies whose business model is exposed to transition risk, eg due to climate-related regulation and market changes, and also assess the companies' sustainable transition goals and progress. On the underwriting side, the metrics proposed by the TCFD can help insurers' ability to understand and quantify their exposures to physical and transitional climate-related risks associated with their underwriting portfolios.

Insurance Europe aisbl • rue Champ de Mars,23 B-1050 Brussels
Tel: +32 2 894 30 00 • Fax: +32 2 894 30 01
E-mail: info@insuranceeurope.eu
www.insuranceeurope.eu

While increased transparency on sustainability is welcome, information duplication and overload for businesses and users of sustainability information should be avoided. It is of paramount importance that the recommendations remain manageable for all companies to ensure universal acceptance of and greater adherence to the framework. For this to happen, the TCFD should take developments and issues related to existing methodologies and data into account.

A careful cost/benefit balance should be struck between transparency and the reporting costs for companies to avoid creating an additional layer of reporting with potentially negative impacts on business in the form of excessive reporting costs. Reporting requirements should take account of the principles of materiality and proportionality. To encourage global uptake, some requirements may also need to be adapted to emerging markets and developing countries that are at different stages of transition.

Finally, as noted by the TCFD, other climate-related disclosure initiatives are increasingly being developed. Therefore, the industry encourages the TCFD to collaborate with regulators and other standard-setting bodies to achieve a common baseline for climate-change disclosures. This would also help to clarify how the TCFD's recommendations are aligned with frameworks currently under development and to avoid duplication.

For the remainder of the consultation:

A. QUESTIONS IN **RED TEXT** ARE TO BE ANSWERED BY **PREPARERS**
B. QUESTIONS IN **GREEN TEXT** ARE TO BE ANSWERED BY **USERS**
C. QUESTIONS IN **BLUE TEXT** ARE TO BE ANSWERED BY ORGANIZATIONS DESCRIBED AS **FINANCIAL SERVICES** (THAT IS, IF YOU SELECTED RESPONSE OPTION A IN QUESTION 2)
D. QUESTIONS IN **BLACK** TEXT ARE TO BE ANSWERED BY ALL (UNLESS OTHERWISE SPECIFIED IN THE INSTRUCTIONS)

TCFD PROPOSED GUIDANCE ON CLIMATE-RELATED METRICS AND FINANCIAL IMPACTS

We have a few questions about the proposed guidance on climate-related metrics and financial impacts. **Please refer to Section C. Climate-related Metrics and Financial Impacts for definitions and more details.**

A. The next twelve questions (in red) are for preparers of climate-related financial disclosures. If this does not apply to you, please skip to question 20.

N/A

B. The next four questions (in green) are for users of climate-related financial disclosures. If this does not apply to you, please skip to question 24.

20. Which of the proposed cross-industry, climate-related metrics and financial impacts would your organization find useful for preparers to disclose?

	Not at all useful	Not very useful	Somewhat useful	Very useful
Cross-industry, climate-related metrics				
Absolute **Scope 1 and 2** GHG emissions				X
Relevant, material categories of Absolute **Scope 3** GHG				X
Shadow/internal **carbon price(s)**				
Proportion of assets and/or operating, investing, or financing activities **materially exposed to physical risks**, based on key categories of commonly accepted risks				
Proportion of assets and/or operating, investing, or financing activities **materially exposed to transition risks,** based on key categories of commonly accepted risks				
Proportion of assets and/or operating, investing, or financing activities **aligned toward climate-related opportunities**, based on key categories of commonly accepted opportunities				
Amount of senior management **remuneration** impacted by climate considerations				
Amount of **expenditure or capital investment** deployed toward climate risks and opportunities				
Climate-related financial impacts (e.g., those impacted by cross-industry, industry-specific, and company-specific metrics)				
Impact of any material climate-related risks or opportunities on **financial performance** (e.g., cost, profitability, operating cash flow, impairment)				
Impact of any material climate-related risks or opportunities on **financial position** (e.g., assets and liabilities)				

21. Is there anything additional you would like to tell us about your responses above?

N/A

22. There are different benefits that users may derive from the preparers' disclosure of proposed cross-industry, climate-related metrics and climate-related financial impacts. How useful are disclosures of cross-industry, climate-related metrics and climate-related financial impacts in fulfilling the benefits described below?

N/A

23. Is there anything additional you would like to tell us about your responses above?

N/A

24. As part of which activities is your organization using climate-related metrics and financial impacts for decision-making? Select all that apply.

N/A

25. Is there anything additional you would like to tell us about your response above?

N/A

26. If all organizations disclosed the proposed climate-related metrics and financial impacts, how much would that improve the comparability of climate-related disclosures?

a. A lot
b. A little
c. Not at all

- Insurance Europe answer: A lot

27. Is there anything additional you would like to tell us about your responses above?

If the TCFD proposals lead to consistent and standardised ESG metrics, then this could help greatly in achieving better comparability, increased transparency and lower barriers and costs, as well as help data preparers by setting the base for standardisation.

Robust, comparable and reliable ESG data is vital for identifying and assessing sustainability risks in insurers' activities and is necessary to enable investors to steer their portfolios towards sustainability objectives, in line with the Paris Agreement and the European Green Deal. From this perspective, the availability of reliable public ESG data is currently limited and should be improved.

28. Should the proposed cross-industry, climate-related metrics and climate-related financial impacts be subject to a materiality assessment?

	Should be disclosed based on materiality assessment	Should be disclosed irrespective of materiality	I'm not sure
Cross-industry, climate-related metrics			
Absolute **Scope 1 and 2** GHG emissions		**X**	
Relevant, material categories of Absolute **Scope 3** GHG		**X**	
Shadow/internal **carbon price(s)**			
Proportion of assets and/or operating, investing, or financing activities **materially exposed to physical risks**, based on key categories of commonly accepted risks			
Proportion of assets and/or operating, investing, or financing activities **materially exposed to transition risks,** based on key categories of commonly accepted risks			
Proportion of assets and/or operating, investing, or financing activities **aligned toward climate- related opportunities**, based on key categories of commonly accepted opportunities			
Amount of senior management **remuneration** impacted by climate considerations			
Amount of **expenditure or capital investment** deployed toward climate risks and opportunities			
Climate-related financial impacts (e.g., those impacted by cross-industry, industry-specific, and company-specific metrics)			
Impact of any material climate-related risks or opportunities on **financial performance** (e.g., cost, profitability, operating cash flow, impairment)			
Impact of any material climate-related risks or opportunities on **financial position** (e.g., assets and liabilities)			

29. Is there anything additional you would like to tell us about your responses above?

Insurance Europe agrees with the TCFD that the concept of materiality is not static and that it will evolve over time. It is often appropriate in environmental disclosures to consider materiality based on the severity and likelihood of the impacts, and these are often entity-specific. Proper use of materiality will also avoid the need for better disclosures resulting in substantial burden, without justified benefits for information-users.

However, Scope 1, 2 and 3 GHG emissions data should be reported independently of a materiality determination. This is because:

- It can bring significant advantages to investors, as they would be better able to understand the aggregate effects on their investment portfolios and therefore better estimate related risks.
- It is in line with emerging disclosure frameworks already widely used by companies to report their impact on the climate. For example, the EU Sustainable Finance Disclosures Regulation (SFDR) is expected to require insurers and other financial market participants to report detailed environmental metrics independent of any materiality assessment, eg adverse sustainability indicators on GHG

emission, such as carbon footprint, GHG intensity of investee companies, exposure to companies active in the fossil fuel sector, etc.

- It can facilitate compliance with upcoming legislation. Reliable, standardised cross-sectoral information across jurisdictions is especially important for companies with global operations, eg insurers with global investment portfolios. In this respect, more work to reach a common baseline of material information and related methodologies across jurisdictions is encouraged.

TCFD PROPOSED SUPPLEMENT GUIDANCE FOR THE FINANCIAL SECTOR

We would like to ask a few questions about the proposed supplemental guidance for the financial sector. **Please refer to Section C.3 Proposed Updates to All Sector Guidance and Supplement Guidance and the Portfolio Alignment Technical Supplement for definitions and more details.**

C. The next four questions (in blue) are for the financial services sector (that is, if you selected response option a in question 2). If this does not apply to you, please skip to question 49.

35. See Section C.3, subsection Scope 3 Emissions for the Financial Sector: Financed Emissions What methodology does your organization leverage for estimation of financed emissions?

a. Partnership for carbon accounting financials (PCAF) methodology
b. Weighted average carbon intensity (WACI) methodology
c. Another methodology (please specify)
d. We do not currently disclose financed emissions

- Insurance Europe answer: a, b, c

36. Is there anything additional you would like to tell us about your response above?

The computation of Financed Emissions poses significant challenges in terms of necessary data as well as different methodologies for the calculations. With respect to the latter, some insurers use the Weighted Average Carbon Intensity (WACI) methodology, while others use others, eg the Partnership for Carbon Accounting Financials (PCAF) or the Paris Aligned Investment Initiative (PAII).

The European insurance industry supports the reporting of Scope 3 emissions and the development of Scope 3 emissions data and a methodology to allow an entity to adequately disclose the Absolute Scope 3 GHG emissions directly linked to the entity's activities and provide a complete picture of a company's footprint. This is particularly important given the estimated emissions from Scope 3 compared to total Scope 1 and Scope 2 GHG emissions.

37. What are the key challenges your organization is facing or may face in disclosing financed emissions? Select all that apply.

a. Lack of internal expertise and / or resources
b. Lack of buy-in across organization
c. Hard to get relevant data
d. Selection/application of methodologies
e. Not required to disclose
f. Other (please specify)
g. No challenges

- Insurance Europe answer: c, d

38. Is there anything additional you would like to tell us about your responses above?

See response to Question 36

39. There are different benefits derived from disclosure of financed emissions. How useful are disclosures of financed emissions in fulfilling the benefits described below?

	Not at all useful	Not very useful	Somewhat useful	Very useful
Ability to deliver on my organization's climate ambition (i.e., one set by the Board and Senior Management)				X
Better decision making (e.g., investment, lending, insurance underwriting)				X
More effective engagement with my value chain (e.g., with beneficiaries and counterparties)			X	
Compliance with regulatory mandates				X
Compliance with investor reporting requests				X
Satisfying customer pressures			X	
Other (please specify): ________________________				

40. Is there anything additional you would like to tell us about your responses above?

N/A

41. See Section C.3, subsection Portfolio Alignment Technical Supplement. Is your organization using portfolio alignment tools, and if so for what purposes? Select all that apply.

a. Target setting
b. Impact reporting
c. Capital allocation optimization
d. Informing counter-party engagement
e. Product development
f. Transition risk quantification
g. We are not using portfolio alignment tools

- Insurance Europe answer: a, f, g

42. Is there anything additional you would like to tell us about your response above?

European insurers appreciate the TCFD work to encourage the measurement of portfolio alignment with the Paris Agreement goals. In this respect, it is important to note that the use of approaches will improve over time as better data and methodologies become available.

Insurance Europe notes that in Europe further work under the EC's Renewed Sustainable Finance Strategy is planned to introduce standards to require financial institutions to disclose transition and decarbonisation plans and how they plan to improve their environmental footprint. It would be helpful to clarify how the TCFD's recommendations are supposed to be aligned with these emerging climate-related disclosure initiatives so that potential duplications are avoided.

43. In your opinion, what are the key challenges that need to be addressed across climate data and analytics in order to support the usefulness and adoption of portfolio alignment tools? Select all that apply.

a. Data availability
b. Data standardization
c. Data quality
d. Challenges specific to Scope 3 GHG emissions data
e. Climate scenario development or application
f. Other (specify):

- Insurance Europe answer: a, b, c, d

44. Is there anything additional you would like to tell us about your response above?

Portfolio alignment tools depend on comparable and consistent data, accessible at low cost and with limited operational effort. For this reason, the industry encourages the TCFD to continue to engage with regulators and standard-setting bodies to reach baseline convergence across jurisdictions and improve the ESG data necessary for portfolio alignment tools. This would help achieve shared views on climate-related disclosures across different jurisdictions. The industry also sees the need for the TCFD to support the development of public data initiatives, such as the EC European Single Access Point (ESAP).

45. What key benefits does use of portfolio alignment tools have to your organization?

Portfolio alignment tools are useful to monitor resilience against transition risks and to communicate about a company's contribution to sustainability. In particular, they can be useful tools to measure improvements over medium and long time horizons. For example, they can support an insurer's climate strategy by enabling it to make better investment and insurance underwriting decisions.

46. What key benefits do you expect the use of portfolio alignment tools would have to your organization?

N/A

47. Are there outstanding questions related to the usefulness, challenges, and/or design of portfolio alignment tools not covered in the Portfolio Alignment Technical Supplement to which answers are needed in order for your organization to better incorporate such tools in your management processes?

N/A

48. TCFD is proposing a number of changes to the supplemental guidance for the financial sector. For each of the following, please tell us whether your organization supports the proposed changes.

Proposed changes	Yes	No	I'm not sure
Banks, asset managers, asset owners, and insurers should disclose **exposure to carbon-related assets**	X		
The **term "carbon-related assets" should be expanded** to refer to those assets tied to the four Non-financial groups identified by the Task Force in its 2017 Final Recommendations (i.e. energy, transportation, materials and buildings, and agriculture, food, and forest products groups)	X		
Banks, asset managers, and asset owners should disclose **financed emissions**	X		
If banks, asset managers, and asset owners disclose financed emissions, should they use the **PCAF's methodology and WACI, if relevant, or a comparable methodology**	X		
(Re)insurance underwriters should disclose **WACI for their commercial property and specialty lines** of business that cover tangible properties and goods	X		
All financial institutions should **disclose alignment of their portfolios with the goals of the Paris Agreement** and incorporate forward-looking alignment metrics into their target-setting framework and management processes	X		

49. Please provide any additional comments you have on the recommendations of the TCFD proposed supplemental guidance for the financial sector (Measuring Portfolio Alignment). Please refer to Section C.3 Proposed Updates to All Sector Guidance and Supplement Guidance and the Portfolio Alignment Technical Supplement for definitions and more details.

Insurance Europe agrees with disclosing **exposures to carbon-related assets** and that the **term "carbon-related assets" should be expanded** as proposed by the TCFD. At this stage, optional disclosure here may encourage the transparency required before making this standard mandatory.

In principle, financial firms should include operational and financed emissions in Scope 3. However, there are competing methodologies to compute financed emissions at present and there is still a lack of consensus as to which is most widely applicable and meaningful. In addition, there are also significant data challenges. Therefore, until further consensus emerges, financial firms should select and disclose on a best-effort basis those science-backed metrics and targets that are relevant to their strategy. These disclosures should take into account the principle of proportionality.

Focusing on WACI disclosures by (re)insurance underwriters, lack of data and transparency across (re)insurance lines makes robust mandatory disclosure a significant challenge at present. For this reason, optional disclosure might be preferred at this stage. This approach may also encourage the transparency enhancements required before recommending that this type of disclosures becomes mandatory.

Similar difficulties apply also to forward-looking alignment metrics, where there are wide divergences in methodologies and assumptions that prevent comparability of disclosures. In this respect, the industry encourages the TCFD to continue working on the limitations of such metrics with standard-setters. This will help achieve standardised and transparent methodologies, which are necessary before this type of disclosures can be recommended as mandatory.

TCFD PROPOSED GUIDANCE ON CLIMATE-RELATED TARGETS

We have a few questions about the proposed guidance on climate-related targets.
Please refer to Section D. Climate-related Targets for definitions and more details.

50. When will your organization set quantitative targets across cross-industry, climate-related metrics?

N/A

51. Is there anything additional you would like to tell us about your responses above?

N/A

52. How useful is it to your organization for preparers to disclose quantitative targets across cross-industry, climate-related metrics?

N/A

53. Please provide any additional comments you have on the TCFD proposed guidance on climate-related targets.

N/A

TCFD PROPOSED GUIDANCE ON CLIMATE-RELATED TRANSITION PLAN

We have a few questions about the proposed guidance on climate-related transition plans.
Please refer to Section E. Climate-related Transition Plans for definitions and more details.

54. When will your organization set a transition plan?

N/A

55. Is there anything additional you would like to tell us about your response above?

Insurance Europe supports the inclusion of transition plans in the framework. For this reason, it appreciates the recommendations on the transition plans. These can improve the management of sustainability risks and provide a basis for the communication of companies' positions and efforts in relation to the sustainability transition. For these plans to be most useful, it is vital that the TCFD collaborates with global standard-setting bodies to create the bases for them, especially with respect to availability of necessary data.

56. What are the key challenges your organization is facing or may face in setting a transition plan? Select all that apply.

N/A

57. Is there anything additional you would like to tell us about your response above?

N/A

58. **How useful to your organization would it be for preparers to disclose transition plans?**

N/A

59. **Is there anything additional you would like to tell us about your response above?**

N/A

60. **There are different benefits derived from disclosure of transition plans by preparers. How useful are disclosures of transition plans in fulfilling the benefits described below?**

N/A

61. **Is there anything additional you would like to tell us about your responses above?**

N/A

62. **How useful are climate-related metrics for structuring and tracking progress of a transition plan?**

	Not at all useful	Not very useful	Somewhat useful	Very useful	I'm not sure
Cross-Industry					
Absolute **Scope 1 and 2** GHG emissions				**X**	
Relevant, material categories of Absolute **Scope 3** GHG emissions				**X**	
Shadow/internal **carbon price(s)**					
Proportion of assets and/or operating, investing, or financing activities **materially exposed to physical risks**, based on key categories of commonly accepted risks					
Proportion of assets and/or operating, investing, or financing activities **materially exposed to transition risks,** based on key categories of commonly accepted risks					
Proportion of assets and/or operating, investing, or financing activities **aligned toward climate-related opportunities**, based on key categories of commonly accepted opportunities					
Amount of senior management **remuneration** impacted by climate considerations					
Amount of **expenditure or capital investment** deployed toward climate risks and opportunities					
Financial Sector					
Financed emissions and / or WACI					
Portfolio alignment metric					

63. Is there anything additional you would like to tell us about your responses above?

With respect to structuring and tracking the progress of a transition plan, target-setting will help ensure the value of disclosures to users only if targets are consistent with the six principles set by the TCFD. The insurance industry specifically recognises the importance of using established metrics that are quantified, science-based and time-bound (including explicit baselines, time horizons and interim targets). In addition, it is important to have those targets tested against stakeholders' expectations. Finally, standardised target-setting based on accepted metrics and comparable data/methodologies is key.

64. For what types of organizations should TCFD recommend disclosure of a transition plan (as defined in Strategy Recommended Disclosure c))? Select all that apply.

a. If an organization operates in a **jurisdiction with an emissions reduction commitment**
b. If an organization has **made an emissions reduction commitment**
c. If an organization seeks to **meet emissions reduction expectations from financial market participants**
d. None of the above
e. Other (please specify): ______________________

N/A

65. Is there anything additional you would like to tell us about your response above?

N/A

66. How helpful would it be for organizations to have more guidance related to disclosure of climate adaptation aspects of their strategy?

a. Very helpful
b. Moderately helpful
c. Not helpful
d. I'm not sure

N/A

67. Please provide any additional comments you have on the TCFD proposed guidance on climate-related transition plans.

N/A