



Sustainable Finance

Considerations for the insurance CFO

December 2021

Insurers are being challenged by investors, regulators and the wider community to better demonstrate the value that they bring to society; to use their influence to promote a more sustainable world; and to adopt a business model that clearly generates long-term value (LTV).

The finance function plays a leading role in communicating the contribution of insurers to society with the use of metrics, and in developing incentive programmes to enable the company to deliver its strategic sustainability ambitions. It is critical for insurance CFOs to use their influence to design an approach to meet stakeholder reporting needs efficiently and help the organization to achieve its goals.

Key priorities for the finance function

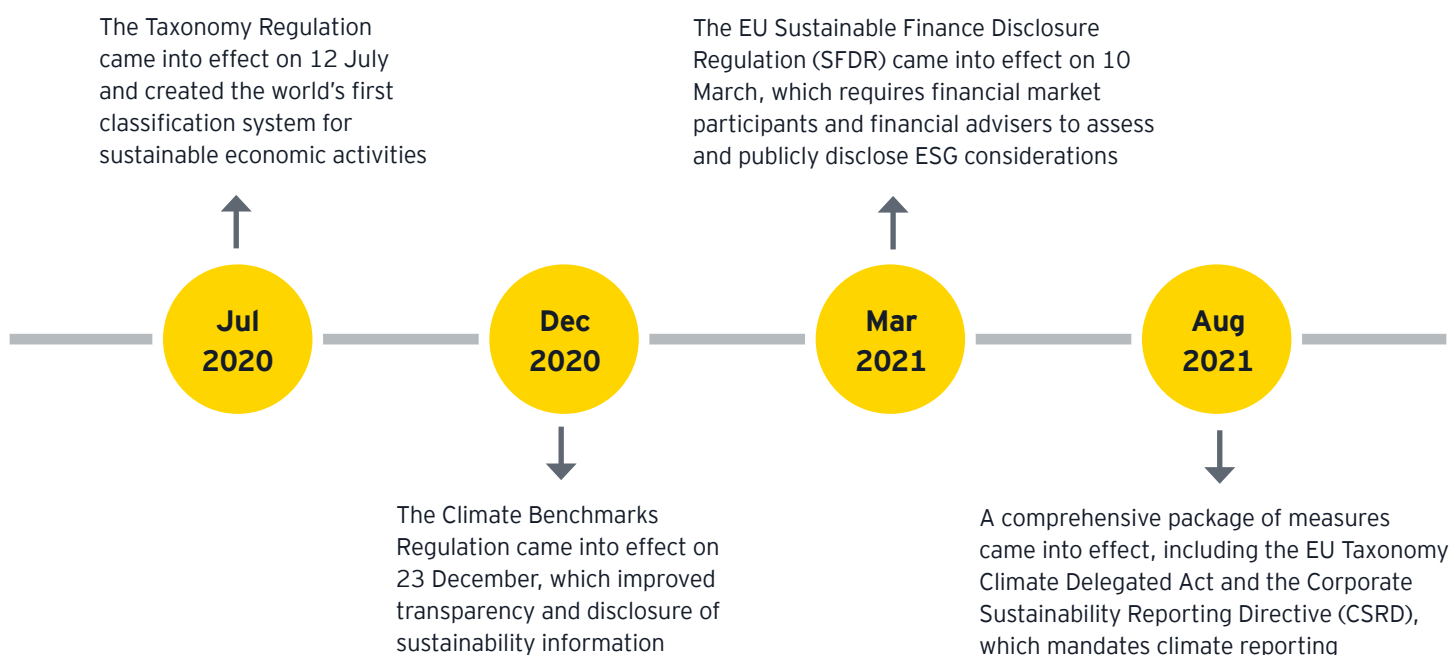
- 01 Co-develop the sustainability strategy** of the business to focus on LTV and maintain financial resilience
- 02 Establish the sustainability measurement and reporting framework** to enable business decisions, monitor against strategic objectives and deliver credible external reporting
- 03 Drive a robust and well-controlled stakeholder narrative** around sustainability disclosures
- 04 Rethink the capital allocation strategy** to drive business agility, resilience and long-term value

Finance will play a leading role in building sustainability into existing processes:

External reporting	Planning, budgeting and forecasting	
Performance reporting	Investment prioritization and capital allocation	
Property and lease management	Supplier management	Tax
M&A strategy and playbook		

Climate reporting: from voluntary to mandatory

Climate reporting requirements are becoming increasingly relevant to policymakers as a means to ensure formal assessment of sustainability risks and opportunities. Recent European proposals are mandating the disclosure of environmental, social and corporate governance (ESG) considerations. Recent milestones from the EU 2018 Sustainable Finance action plan demonstrate the shift from voluntary to mandatory climate reporting.



Spotlight on: CSRD

In April this year, the European Commission adopted a proposal for the EU Corporate Sustainability Directive (CSRD). This builds on its predecessor, the Non-Financial Reporting Directive (NFRD) and extends both the scope and requirements of their sustainability reporting standards.

The CSRD is relevant to all large European companies and all companies listed on regulated markets, with exception of micro-enterprises.

The proposal introduces more detailed reporting requirements, with companies required to report under mandatory EU sustainability reporting standards. Reported information is also required to be assured and digitally tagged.

IFRS reporting developments

The IFRS Foundation Trustees published a [proposal to amend the IFRS Foundation Constitution](#) to accommodate the formation and operation of an International Sustainability Standards Board (ISSB) in April 2021. At the COP26 climate change conference held in November 2021, the IFRS Foundation Trustees formally announced the [creation of the ISSB](#).

The IFRS Foundation have set out an ambitious timeline in which they aim to release a first set of draft standards for comment in the first quarter of 2022, and to have a climate-related disclosures standard and a standard on general requirements for sustainability-related financial disclosures ready for use in the second half of 2022.

ESG reporting standards

ESG reporting is often deemed as an ‘alphabet soup’ of competing frameworks that insurers need to navigate. CFOs play a pivotal role in identifying the relevant reporting frameworks. The reporting decisions are critical to the success of strategically measuring and monitoring performance.

WEF IBC metrics ¹	SASB ²	GRI ³	TCFD	CDP	UN SDGs ⁴	GHG Protocol ⁵
Social & Human Capital Protocol	Future Fit Benchmark	PRI ⁶	ISSB ⁷	EFFAS ⁸	SFDR ⁹	TNFD ¹⁰

¹ World Economic Forum International Business Council

² Sustainability Accounting Standards Board

³ Global Reporting Initiative

⁴ UN Sustainable Development Goals

⁵ Greenhouse Gas Protocol

⁶ Principles for Responsible Investment

⁷ International Sustainability Standards Board – The ISSB will operate alongside International Accounting Standards Board (IASB)

⁸ European Federation of Financial Analysts Societies

⁹ Sustainable Finance Disclosure Regulation

¹⁰ Taskforce on Nature-related Financial Disclosures

TCFD is gaining momentum across the globe, and is becoming mandatory for a number of countries including the UK, Switzerland, Canada and Hong Kong. CFOs will need to ensure that they are aware of the data and reporting requirements that underpin this. Some of the key disclosure considerations for insurers for each of the TCFD Pillars are outlined below.

Governance

- ▶ Process and frequency by which the board are informed about climate-related issues
- ▶ Whether an organization has assigned climate-related responsibilities to management-level positions
- ▶ Societal/ethical values within the board

Risk management

- ▶ Processes for identifying and assessing climate-related risks for (re)insurance and investment portfolios including physical, transition, and liability risks
- ▶ Key tools used to manage climate-related risks for product development and pricing
- ▶ Climate-related scenario analysis on underwriting and investment activity
- ▶ Development of new risk transfer mechanisms to provide insurance solutions to uninsurable risks

Strategy

- ▶ How climate-related risks and opportunities factored into investment strategies
- ▶ How potential impacts of climate-related risk influence client, cedant and broker selection
- ▶ Details of any climate-related products under development
- ▶ Any product charging structures that close the protection gap and shine light on broader societal benefits

Metrics and targets

- ▶ Metrics used to assess climate-related risks and opportunities in each fund or investment strategy, and how these metrics have changed over time
- ▶ Weighted average carbon intensity for each investment strategy
- ▶ Metrics considered in investment decisions and monitoring
- ▶ Aggregated risk exposure to weather-related catastrophes of their property business



Roadmap to reporting

Insurance CFOs have an opportunity to play a critical role in building a reporting roadmap that puts LTV creation at the core of the finance function.

There are signals that ESG reporting, covering more topics than only climate risk, will also become regulated in the future. One such signal is the proposed CSRD in the European Union, which is expected to require ESG disclosures to be made by a large number of firms and have these assured by 2023.

CFOs should ensure that processes and controls supporting ESG reporting are well designed and maintained ahead of the implementation of proposals in the next two to three years.

	Define	Design	Embed	LTV
	Creating a value based narrative	Developing a reporting strategy	Integrating effectively into BAU	Ongoing reporting and development
Next steps	Starters <ul style="list-style-type: none"> Understand regulatory and reporting requirements Know how to choose the right standards 	<ul style="list-style-type: none"> Assess capability of existing architecture Identify new data requirements, and determine need to procure external data 	<ul style="list-style-type: none"> Develop governance structures over reporting oversight and approvals Understand how data flows through the business 	<ul style="list-style-type: none"> Streamline manual ESG reporting processes Enabling technology for non-financial information data management
	Best in class <ul style="list-style-type: none"> Identify reporting overlaps (e.g., Solvency II) and understand how they interact Assess whether your criteria are suitable for managing and measuring performance 	<ul style="list-style-type: none"> Develop a strategic plan to support the ESG strategy and compliance regime Optimize the data infrastructure to unlock data as an asset 	<ul style="list-style-type: none"> Refine governance structures to support a strong control environment for reporting Embed non-financial information management into business functions 	<ul style="list-style-type: none"> Manage audit trails, including IT general controls Integrate financial and non-financial information to enable collaborative decision and reporting
How EY teams can support	<ul style="list-style-type: none"> Guidance on compliance with new and future regulatory requirements Development of a materiality assessment framework 	<ul style="list-style-type: none"> Review of critical path to identify accelerator opportunities Implementation collaborator in MI/ visualization services 	<ul style="list-style-type: none"> Assessment of detailed process workflow to identify key risk areas in ESG reporting Support in control design, implementation and testing Integration support to meet working day timetable 	<ul style="list-style-type: none"> Assurance procedures over ESG reporting Fact finding & recommendations over the effectiveness of controls

Significant challenges to reporting

Reporting on financed emissions

In order to measure and report on Scope 1, 2 and 3 emissions, insurers need the ability to measure and track the emissions arising from financing activities, also referred to as “carbon accounting”. Despite growing pressure to report, tracing carbon impacts is still not an easy task. Insurers will be able to systematically build a better overall picture by determining the attribution factor for each class of assets.

Data management and reporting

There are three key problem areas which have created a separation between the ESG data that insurers need for reporting, and what is actually available: data suitability, data availability and data consistency. To address these, insurers will need to equip themselves with a combination of strong in-house research expertise and sophisticated screening techniques.

EY reporting accelerators

EY/Enablon ESG management and reporting solution

EY teams have co-developed an [ESG management and reporting solution](#). The solution covers three key areas:

- ▶ Enhanced disclosures content: indicators aligned to the latest frameworks.
- ▶ Climate risk: management module which uses methodologies to assess, manage and report risk in alignment with the TCFD.
- ▶ Integrated leading ESG practices: equipped with traditional ESG management tools.

EY Arena

EY Arena provides a broad ESG data solution that ingests ESG data from multiple sources, harmonizes this into a common ESG Data taxonomy, then represents the ESG information required for various ESG data usages (e.g., particular regulatory reporting requirements).

EY Sustainability Metrics Navigator

The navigator is a dashboard that provides a broad ESG view using data modelling and visualization, with an ability to tailor dashboards to suit your business.



Embedding sustainability into existing processes

In addition to supporting mandatory reporting, the finance function will also play a leading role in embedding sustainability into existing processes.

External reporting

Design processes and controls around the production of climate-related financial disclosures, including horizon scans for upcoming reporting requirements.

How EY teams can support

- ▶ Assess the capability of existing architecture for TCFD reporting
- ▶ Support the development of end-to-end process workflow to integrate non-financial disclosure reporting

Planning, budgeting and forecasting

Set up a business plan against the ESG risk appetite by incorporating sustainability specific impact into income and cost measures.

How EY teams can support

- ▶ Support the design and development of an ESG assessment framework, identifying key financial planning risks arising from physical and transitional climate risks (e.g., asset valuation, liability provisioning)

Performance reporting

Incorporate sustainability specific measurement models and frameworks to monitor against net-zero ambitions and carbon accounting.

How EY teams can support

- ▶ Support the development of external KPIs to support stakeholder engagement and develop internal KPIs to support business decisions

Investment prioritization and capital allocation

Ensure climate-related risks and opportunities are factored into investment strategies, enhance your capital allocation strategy.

How EY teams can support

- ▶ Support the development of metrics used in investment decisions and monitoring
- ▶ Help redefine risk policies for investment portfolios

Property and lease management

Embed ESG into property selection and management, including physical risk assessments and investing in carbon efficiency upgrades for existing portfolios.

How EY teams can support

- ▶ Assess the need for procurement of external data of physical risks
- ▶ Support development of data requirements to facilitate carbon reporting

Supplier management

Understand and rationalize the key supply chain characteristics through SLAs and monitor supplier performance/supply chain information.

How EY teams can support

- ▶ Help develop a materiality assessment framework to support supplier procurement and management

Tax

Embed tax as a key lever into sustainability reporting and existing processes across the value chain.

How EY teams can support

- ▶ Help align tax governance, strategy and KPIs to the wider ESG strategy
- ▶ Risk assess impacts of sustainability-related taxes and incentives
- ▶ Assess the organization's total tax contribution and ability to leverage existing tax reporting and transparency processes

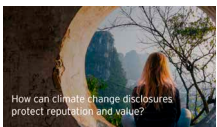
M&A strategy and playbook

Embed ESG objectives into the deal lifecycle.

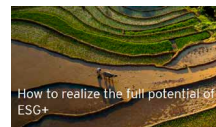
How EY teams can support

- ▶ Support development of ESG metrics used in transactional decision making
- ▶ Deliver background training sessions to target company on ESG issues

EY content



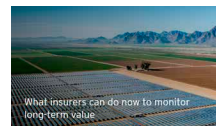
[The EY global climate risk disclosure barometer provides a snapshot of the update of recommendations by the TCFD](#)



[How to realize the full potential of ESG](#)



[How European insurers are advancing the sustainability agenda](#)



[What insurers can do now to monitor long-term value](#)



EY teams' collaboration across the globe with industry bodies and trade associations

EY teams work with many of the leading sustainability organizations and standard-setters such as the World Business Council for Sustainable Development, International Integrated Reporting Council, GRI, SASB, Association of International Certified Professional Accountants and the TCFD to gain knowledge on emerging trends, develop new frameworks and understand the major sustainability challenges that insurers are facing.

Leading initiatives

World Economic Forum	<p>WEF ESG 'scorecard' – IBC Long-term Prosperity Project: Proposal recommends a common set of universal ESG metrics/disclosures on non-financial factors.</p>
Coalition for Inclusive Capitalism	<p>EPIC: Build out of non-financial metrics including innovation and human capital.</p>
TCFD playbook	<p>In collaboration with the Institute of International Finance (IIF) and United Nations Environment Programme Finance Initiative (UNEP FI), the TCFD Playbook provides guidance and insight for each of the eleven recommended TCFD disclosures.</p>

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