



WEBINAR

SOSTENIBILIDAD Y CAMBIO CLIMÁTICO: EL PAPEL DEL ACTUARIO

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Col.legi d'Actuaris de Catalunya

Integrating climate risks into strategic investment decisions





Climate is on insurer's agendas▶ it matters for all industry stakeholders



Changing expectations of clients, plan members, business partners & staff

- Increased awareness
- Societal shift wanted
- Record volumes invested in sustainable funds











Board of Directors

Management

Regulators

Source: NASA





para el cambio climático

La emergencia climática amenaza con superar nuestra canacidad de reacción En el año 2100 la subida del nivel del mar en España será de 1'1 metros Con una adecuada gestión territorial del ecosistema se podrían mitiga peligros

Quant de temps ens queda perquè el canvi climàtic sigui irreversible?

23/09/2020 - 20.06 | Actualitzat 23/09/2020 - 21.28

Regulators taking action



- Since 2018, more than 170 ESG regulations into force globally
- In 2018, EU recommendation to make ESG investment easier in Europe
- Various international working groups with insurance focus



FORUM

The SIF is a network of leading insurance supervisors and regulators seeking to strengthen their understanding of and responses to sustainability issues for the business of insurance. It is a global platform for knowledge sharing, research and collective action.



EIOPA is putting in place a <u>sustainable finance</u> <u>action plan</u> with the aim of ensuring that:

- Insurers manage and mitigate ESG risks through their underwriting activity;
- Insurers and pension funds reflect policyholder and pension scheme member preferences for sustainable investments, where relevant;
- Insurers and pension funds adopt a sustainable approach in their investments based on principles of stewardship

- Regulation evolving
 - ~ IORP II: Governance, Risk Mgt, Own risk assessment, Investment principles
 - ~ Solvency II: Pillar 1, 2, 3

Shareholders and Directors Management Society Regulators

Managing climate risk aligned with core insurance purpose

- Company value partly intangible (brand, image, etc)
- Reputational risk in case of ESG wrong doing
- Insurance core purpose (long term protection) fully coherent with ESG



Forcing management to take action

- Inclusion in operating models (e.g. green office, car policies, etc)
- Review overall governance & 2nd line functions
- Integrate ESG Principles in first line activities
 - ~ Underwriting
 - ~ Investment decisions

Goldman Sachs' report shows ESG increases weight in insurance

The ninth insurance report of Goldman Sachs' asset management division confirms the trend for the fourth consecutive year. The companies in Europe and Asia-Pacific remain the most active on the sustainability front. Although a minority of respondents indicate climate risk as a "primary consideration," it is present in the investment process in 73% of cases in the EMEA region.

UNITED NATIONS-CONVENED NET-ZERO ASSET OWNER ALLIANCE

We are an international group of 30 institutional investors delivering on a bold commitment to transition our investment portfolios to net-zero GHG emissions by 2050.

Representing \$5.0 trillion assets under management, the **United Nations-convened Net-Zero Asset Owner Alliance** shows united investor action to align portfolios with a 1.5°C scenario, addressing Article 2.1c of the Paris Agreement.



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... But is ESG both Right AND Smart for insurers' investments?

Example AAE contribution to the SII consultation

Disagreed on "We should make it less costly for insurers to invest in environmentally sustainable economic activities and associated assets (so-called "green supporting factor")" as "investments of insurers are guided by the utmost goal of meeting the obligations towards policyholders and same risk, same capital principle"

Smart Investment decisions should rely on

- Favorable asset inherent risk/return profile
- Asset class intrinsic knowledge
- Adequate maturity & liquidity vs liability profile
- Return correlations vs other assets and insurance risks
- Internal knowledge/capability to manage specific asset class
- Limited reliance on external parties
- Inclusion into ALM / SAA
- Capacity to anticipate/avoid surprises

Raises questions & Requires deeper analysis







The Global Risks Report 2020 | 15th edition







The Global Risks Report 2020 | 15th edition

Physical vs. *transition* risks

Carbon Risk Scan Impact energy transition

ose xisx file	Subsector	Loans_allocation	Loans_LGD	Bonds_allocation	Bonds_LGD	Equity_allocation	Equity_PD	Adaptability_score
Brease. Portfolo input xtx: Listend impunit	Animal production	0.0000	0.3	0.000000	0.4	0.0000	2.504070e-04	0.631
	Mining of coal and lignite	0.0000	0.3	0.000025	0.4	0.0001	7.347150e-04	0.104
	Manuf.ure of food products	0.0000	0.3	0.005500	0.4	0.0172	2.518399e-04	0.064
	Manuf.ure of food products	0.0000	0.3	0.022450	0.4	0.0508	2.597031e-04	0.155
	Manuf ure of dairy products	0.0000	0.3	0.005500	0.4	0.0172	1.432919e-06	0.142
Umwelt 🎲 Bundesamt	Manuf.ure paper and paper products	0.0000	0.3	0.000200	0.4	0.0008	3.998625e-06	0.171
	Manuf.ure chemicals	0.0984	0.3	0.057825	0.4	0.0241	1.123484e-04	0.068
	Manuf ure glass	0.0000	0.3	0.000175	0.4	0.0007	1.981714e-06	0.231
	Manuf ure cement, lime and plaster	0.0108	0.3	0.006525	0.4	0.0033	3.863524e-05	0.232
	Manuf uns of	0.0170	0.9	0.040400	0.4	0.0064	D 016410+ D4	0.640





Forward looking scenario analysis

Attention for climate related risks has increased on all fronts in recent years



Forward looking scenario analysis

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EIOPA (October 2020)

"... supervisors should expect insurers to subject material climate change risks to at least two long-term climate scenarios // ...



Forward looking scenario analysis

Risk and scenario analysis of climate risks has many challenges

- Historical statistics are missing
- Data is incomplete or fragmented
- ☆ (Physical) climate risks mostly outside ALM/ORSA projection
- Translation of transition risks to economic factors



Forward looking scenario analysis Ways to integrate climate risks in asset pricing

Top-down

Macro economic analysis

Bottom-up

Sector specific studies

Forward looking scenario analysis Ways to integrate climate risks in asset pricing

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Bottom-up

Sector specific studies

analytics

Mira ABM framework

- Database with revenue flows between sectors and regions
- Valuation of investment categories based on revenue projections of underlying companies

Forward looking scenario analysis Climate risks in a scenario perspective

	Technology		Policy
Long-term	Impact on	Bottom-up	Price of CO ₂
trend	value chain	approach	emissions

Forward looking scenario analysis Climate risks in a scenario perspective

Technology			Policy	
Long-term	Impact on	Bottom-up	Price of CO ₂	

Speed of transition and ambition level determines impact:

- ~ Stranded assets
- ~ Potential turnover from new technologies and business models
- ~ Sustainable future Return on Equity

Forward looking scenario analysis Impact long-term transition

	Minimal	Extreme
Tax on airline tickets	6%	20%
Fuel tax	10%	25%
Electric cars (%)	24%	84%
11		
Wind and solar power	22%	60%



Forward looking scenario analysis Impact long-term transition

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*		
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		• • • •
4 1		
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Transition scenario impact



Forward looking scenario analysis Impact long-term transition



Sustainability Integration of SDG in investment cycle

ESG includes more than just climate risks

• Only focusing on the reduction of CO₂ emissions within the portfolio is insufficient

Sustainable Development Goals

Integration: from strategic investment decisions to evaluation & monitoring



Sustainability A multifaceted problem requires collaboration









Sustainability Integration of SDG in the investment cycle



Integrating *climate risks* into *strategic investment decisions*

Physical versus transition risks

- Risks manifest over different time horizons
- Urgency to at least act on transition risks

Forward looking scenario analysis

- Start out with a dedicated focus
- Gain insight into the impact climate related risks will have on your organization and investment portfolio
- Full integration of SDGs into the investment cycle







More information? Please contact us!

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