LLOYD'S

November 2023

Insuring the transition

Roadmap consultation

Contents

Foreword

As governments around the world set commitments to lower their emissions, it is estimated that 90% of global GDP has a net zero target.

If these commitments are to be reached, it will require the largest capital re-allocation in history. This will bring risks to our customers that they need support to navigate. As insurers, we can provide that support by staying steady as our clients transition their business models. Insurers also need to be ready to deliver the coverages required for emerging and new technology critical to supporting large-scale decarbonisation, adaptation, and resilience building – all of which will be essential to future socioeconomic growth and stability.

As this transformation gathers pace, increasingly reinforced by legal and regulatory expectations, we must rise to the challenge to ensure that we remain relevant and well-positioned for the future; offering both the products that our customers need now but also to be there to protect them in the future. This is what we are being told by our customers that they want to see; it is increasingly the expectation of our regulators; and it is being underpinned by government policy.

Our task, therefore, is to work to build a marketplace which is resilient and responsive to the risks of today and innovating for the risks of tomorrow; a market that has the expertise and tools to support our clients as they transition, and a market which has the capital and strategy to grow and support more communities globally.

By navigating this difficult journey, we can ensure the long-term financial stability of the market, for the benefit of its participants but also those who rely on us to provide the cover they require. We can also take advantage of the many opportunities this large scale transformation will bring.

This roadmap sets out a three-year forward looking plan for the approach Lloyd's intends to take in responding to an increasingly complex, nuanced and rapidly shifting landscape. It includes a guiding framework to support managing agents in more consistently assessing the transition plans of their clients, and provides greater clarity to our oversight approach for climate-related considerations and business activities. The document also recognises and addresses the reality that if the climate is changing, then we need to have the ability to assess the impact of that change on any risk, to underwrite it appropriately.

Our approach is underpinned by our commitment to supporting an urgent and orderly transition to net zero. This means remaining agile in response to external shocks, moving in line with government and regulatory legislation and initiatives. We will iterate and amend the roadmap over the three-year period so that we can be responsive to the needs of the market and our customers.

We hope that in setting out this roadmap, managing agents will have greater clarity on the support, guidance and frameworks the Corporation is planning to implement, as we face into the challenge and opportunity that comes with insuring the transition, which we define in chapter one. In doing so, our aim is to give our market participants greater confidence in setting, embedding and operationalising their own individual climate strategies, through the transition and beyond.

John Neal, CEO, Lloyd's

Roadmap Consultation

The purpose of the roadmap

Lloyd's sustainability strategy is built on the foundation of our purpose of sharing riskto create a braver world. This roadmap supports this aim and is provided as a consultation document to the Lloyd's market and our wider stakeholders.

This document aims to provide the following:

- Clarity to all stakeholders on Lloyd's ambition to be the insurer of the transition and what this means for the market, including how we will follow global policy on transition and have an oversight framework that balances the complex needs of a global transition, including for hard to abate sectors

- Clarity to the Lloyd's market on how Lloyd's oversight framework, subject to the consultation process, may consider transition over the coming years. Accepting this will be an evolving process, but by sharing the key milestones, Lloyd's can support the market in planning around these interactions

- Sharing key transition-focused toolkits that the market can choose to use to build capability and understand how a global transition can be considered in their business strategy

How to respond to the consultation

This consultation document will need the support and feedback from market participants to ensure we're delivering what is expected of us.

We look forward to receiving your input on:

- Lloyd's ambition to being the insurer of the transition
- Our proposed oversight to support this aim
- How Lloyd's can best support the market on this journey

Please provide commentary and feedback relating to this document by completing this survey or scanning the QR code below. Responses are requested up to 31 January 2024.

Insuring the transition

The information and expectations set out in this document look to provide clarity on Lloyd's' oversight processes, subject to the consultation process. The requirements mentioned in this document aim to support managing agents' progress. Lloyd's will continue to be led by local laws and regulations and the direction of travel outlined in this document will continue to adapt as global policy changes.

Lloyd's has a significant opportunity to become the specialist commercial marketplace for the transition, providing the risk solutions and expertise our customers need, understanding our current and future exposures and capturing the financial and reputational value this movement drives.

Lloyd's vision of the transition

The low carbon economy transition is a global challenge that must account for increasing economic and geopolitical volatility, energy security imbalances, together with differentiated pathways across advanced and developing economies, to limit its negative impacts.

For Lloyd's, we will need to ensure the collective management of both the risks of transition, alongside the growth opportunities spurred on by new economic activities. We will also need to support a just transition, that is as fair and inclusive as possible to communities and businesses globally.

Insuring the transition for Lloyd's means that the market will need to pay close attention to the following:

1. Understand the risks of business as usual (not transitioning) – impacting the balance sheet as well as company reputation;
2. Protect long-term profits that may be at risk due to supporting clients who cannot transition;
3. Explore and take new growth opportunities across sectors and industries that may demand different products and services;
4. Implement a strong strategy, fuelled by quality data, that may include assessing transition plans and understanding the carbon emissions to guide commercial strategy;
5. Supporting clients as they transition: engaging with clients to understand the credibility of their transition plans and the related risks associated with their transition, as well as the development of any new low carbon products and services;
6. Understand how stewardship policies and engagement with clients can support them in making progress over time.

Our three-year roadmap

Lloyd's is committed to providing our market with the tools and ecosystem to adapt to the needs of our customers. We believe the market has the opportunity to mitigate its risks, safeguard the long-term sustainability of the market and insure the transition.

This roadmap is our next step on the journey. Outlining a plan for the future, with short-term actionable goals, focusing on the areas that matter most, and being transparent with our oversight.

It will be up to each business operating in the market to decide the pace and structure that works for them, and iterate an approach as the world continues to change.

We know this is complex and there will be numerous stakeholders to involve, engage and educate. That is why we are consulting on this document, to get the full range of views and insights. But we also know that by taking action, we can navigate this turning point for the benefit of our customers and communities.

We will continue to develop and iterate our roadmap over the three-year period to remain in line with government policy and regulatory requirement, as well as adapting to provide the support most needed by the market.

Three year roadmap

Market milestone
Lloyd's milestone

	2023	2024	2025	2026	End expectations
Underwriting	Sustainability strategy submitted following Thematic Feedback & Guidance	Lloyd's to provide further guidance on sustainability; Sustainability strategy submitted as part of oversight	Sustainability strategy submitted as part of oversight	Sustainability strategy submitted as part of oversight	Managing agents have embedded an appropriate governance model for sustainable underwriting that is proportionate to the risk that they underwrite
Exposure Management		Scope defined and guidance provided for 2024 KRI; Lloyd's begin planning climate key risk indicator strategy; Liability focused KRI scenario exercise; Lloyd's develop climate key risk indicator, related to physical flooding risk		Climate key risk indicator data cell – US east coast flood exposure	All managing agents are expected to be fulfilling the key requirements that emerged from the thematic review on catastrophe modelling and climate change
Capital and reserving		Design market survey to assess the capabilities and maturity of managing agents' reserving approach to climate change; Thematic review published following market survey, sharing market-leading practice; Engage with the market on the survey, with consideration for areas of further collaboration			Expectations of managing agents will be shaped by the market survey and what market-leading practice has been identified to ensure sustainable reserving practices
Investments		Consultation paper published for responsible investment policies; Managing agents submit updated responsible investment policies with a focus on transition	Managing agents submit updated responsible investment policies with a focus on transition	Thematic guidance published for responsible investment policies	Managing agents have developed a responsible investment strategy, informed by validated third-party data, have measured their financed emissions and engage in active stewardship of their assets where appropriate

Oversight

Oversight

At the heart of Lloyd's oversight framework are the Principles for Doing Business (the 'Principles').

Lloyd's has already embedded sustainability explicitly within the Principles through **underwriting** and **investment** sub-principles. In addition to these, through the governance principle, **we expect all managing agents to follow the relevant regulations applicable to them with respect to sustainability.** At a minimum that means meeting the PRA Supervisory Statement SS3/19 "Enhancing banks' and insurers' approaches to managing the financial risks from climate change". In this, we recognise that approaches may differentiate across regions, where transition is moving at a different pace, where energy security concerns drive their transition approach, or where local law or regulation requires managing agents to take a nuanced approach to ensure local compliance. There is specific focus on the following oversight sub-principles where Lloyd's expects to have touchpoints with the managing agents over the roadmap horizon:

- **Principle 1.8 Underwriting Profitability**
  Have processes in place to support decision-making in relation to sustainable underwriting.

- **Principle 8.5 Investments**
  Develop a responsible investment policy.

Across these areas, Lloyd's recognises that maturity and resources vary across managing agents. Therefore, we encourage every firm to consider an approach that is fit-for-purpose for their business and the risks they underwrite.

This document forms an outline of the sustainability-related activities that Lloyd's expects to feed into our principles-based oversight and how we expect this information to change over the coming years. Other areas of this document, i.e. the toolkits, do not form part of Lloyd's guidance or oversight, and are provided to managing agents as helpful resources for them to set their own strategies should they choose to.

Underwriting

In 2022, we required all managing agents to provide strategies setting out how their business considers sustainability across their own operations, investments and underwriting. Lloyd's conducts an annual exercise of reviewing those strategies, including any updates and material changes to managing agents' sustainability strategies.

Sustainability strategies are expected to cover how managing agents are monitoring their transition and climate risk; taking advantage of sustainability opportunities; how they are supporting their clients with their transition; and the governance in place to support escalation and effective delivery of their strategy. Sustainability strategies can cover operations, governance, investments and underwriting.

The review of sustainability strategies directly influences syndicates' ratings under Principle 1: Underwriting profitability, sub-principle 8:

Have processes in place to support decision making in relation to sustainability integration into underwriting.

Looking ahead over the three year horizon, we will continue to **expect managing agents to provide sustainability strategies** that are fit-for-purpose for their business. Being fit-for-purpose will mean that a managing agent's strategy aligns to the risks they face from the global transition, i.e. the strategies consider what tools, processes and activities are needed to understand and manage their underwriting in the regions and sectors in which they write business.

The underwriting section of this document sets out how we will consider both the materiality and maturity of these strategies to ensure we manage prudential risks from the global transition, while enabling businesses to make the decisions that work for their individual resilience, transition and growth strategies.

Exposure management

Managing exposure to physical risk is a well-established practice within the Lloyd's market. Managing agents annually take part in analysing portfolio exposure to Realistic Disaster Scenarios, set by Lloyd's, to ensure market-wide exposure and capital remains within risk appetite.

The focus on physical risk will continue, with work beginning next year on developing a climate key-risk indicator for physical flood risk, a high exposure peril for the market. The key-risk indicator will form the basis of a data collection exercise conducted in the following year.

In addition to this, in 2024, guidance will be released on running a key-risk indicator for climate-related liability risk. Further detail on the exercise will be released closer to the time. This will provide a market-wide view of this growing area of litigation.

All the above exercises conducted with the market are part of Principle 2: Catastrophe exposure, sub-principle 1, against which syndicates are assessed:

Manage catastrophe exposure in line with their risk appetites.

Managing agents looking for examples of how to perform climate-related stress-testing or scenario modelling can look to the Bank of England's Supervisory Statement (SS3/19) Climate Biennial Exploratory Scenario.

Capital and reserving

Maintaining adequate capital is crucial for our industry and our clients. It is a regulatory requirement, and we cannot engage in opportunities to grow or support transition if our level of capital does not accurately reflect the materiality of the risks we take on.

Lloyd's plans to carry out a market survey in 2024 to see what extent managing agents are embedding climate change considerations into their reserving and capital model.

Lloyd's currently holds a strong capital position for the risks we have now, but we must maintain a sustainable financial position for the future, whatever that may look like.

The high-level outcome of the review will be shared with the market, including any areas of good practice or areas for development.

This work forms part of Principle 7: Capital, sub-principle 1:

Maintain an internal model which captures all material risks that the syndicate is exposed to.

Investments

Similarly to underwriting, Lloyd's reviews managing agents' Responsible Investment Policies and transition plans, to understand how market participants are managing climate and sustainability risks arising from its investment activities.

Managing agents' responsible policies play an integral role in outlining how ESG and sustainability issues are considered in undertaking investment activities. This includes how fiduciary responsibilities as an asset owner will align to its sustainability strategy and outline what guidance on sustainability issues will be provided to external asset managers it appoints.

The policies should align to each managing agents' individual sustainability strategy and risk appetite. This may include areas such as investment parameters; sustainability metrics; engagement strategy for assets; review and validation of third-party asset manager methodology and impact investments.

Lloyd's will continue to collect responsible investment policies and evidence for how these are used to incorporate responsible investment, engagement/ active ownership and reporting approaches.

Risks arising from climate change may adversely impact the value and/or the liquidity of investments held by managing agents. Therefore responsible investment approaches should consider how exposures to these risks are being monitored, reviewed and managed.

The review of responsible investment policies directly influences Principle 8: Investments, sub-principle 5:

Develop a Responsible Investment Policy

Lloyd's will provide feedback to managing agents in 2024, based on submissions in 2023, to provide further guidance on our expectations with respect to these policies.

The guidance provided in the next two sections (underwriting and investments) will provide further detail on Lloyd's expectations of managing agents in these areas and how the Corporation will provide support.

Lloyd's appreciates, as with all areas of our oversight, that each managing agent sets their own syndicate strategies and policies, and may meet the Principles differently. This is why we have also included a number of ways in which managing agents can embed sustainability into their strategy if they wish to do so.

Potential metrics to use to assist evaluation and useful resources are listed in the "Toolkit: Transition planning" appendix section

Underwriting

Underwriting

for further understanding.

Introduction

The insurance industry is uniquely impacted by climate change. Not only will the increase in severity and frequency of natural catastrophes need to be well understood to provide disaster resilience solutions and protect our balance sheets, insurers are also able to provide support to the technology and processes which will mitigate, adapt and build resilience to the effects of climate change in the long-term.

While taking this opportunity to support resilience, transition and growth, the industry will need to be responsive to government policy and investments that scale up new technologies to tackle and dramatically reduce Greenhouse Gas (GHG) emissions.

Sustainability strategies

Lloyd's has already collected sustainability strategies from all managing agents and expects managing agents to ensure these remain fit-for-purpose and are embedded in their business. This will likely include integrating climate change impacts across their business model as appropriate, a climate governance model, consideration of their scope 1 and 2 emissions measured; and products offered to support clients with their transition plans and lower carbon technologies.

Managing agents should submit this information as part of the annual sustainability strategy submission which are expected to, over time, consider the following five areas:

1. Governance
2. Transition planning
3. Measurement of GHG emissions
4. Underwriting the transition
5. Climate risk management

These strategies should be proportionate to a managing agents' exposure to transition risk, and Lloyd's will consider these on a matrix which considers the maturity of the plans alongside how material it considers transition risks to be to each business.

Managing agents who have a business plan that may be exposed to regions and sectors most impacted by the global transition should be considering how they will be managing risks to their business, not only to the underwriting liabilities, but also to the possible volatility that some economic activities may face over the medium and long-term.

Lloyd's framework for reviewing these strategies will be aligned to existing frameworks on transition planning, such as those outlined in the toolkits found within this document. It will be up to each managing agent to consider how best to incorporate their strategy into their business, and Lloyd's recognises that this is an evolving risk landscape and therefore will provide further detail on this framework as it is developed over 2024, and how this may integrate into oversight principles and business planning.

At a high level, it will be expected that, where a managing agent may have material exposure to a global transition, the five areas consider:

1. Governance

In line with TCFD guidance, Lloyd's expects that boards and executives need to demonstrate effective integration of climate risks into decision-making across business strategies, planning, governance, and risk management processes.

This requirement should be disclosed as part of an annual sustainability strategy submission. Boards must explicitly reference and discuss climate change in board discussion of risks.

Based on the learning from other financial institutions, managing agents will likely involve climate change management and monitoring at board level, or create a steering committee to drive climate transition forward within the

Other examples of effective practice include the following but not limited to:

- Direct board involvement throughout KPIs definition and implementation,
- Boards should explicitly reference and discuss climate change in board discussions on view of risk
- An appropriate governance model for the size and portfolio of their business, which effectively allows sustainability risk to be escalated and discussed at board level, with streamlined delegation of actions as a result
- Roles and responsibilities applicable to the Board or committee have been clearly defined and documented
- Climate management performance included in remuneration strategy for senior management and company staff
- Climate change risks are embedded into all three lines of defence
- Scenario analysis is applied to assess business strategies and resilience[1]
- Firm-wide climate training, potentially covering other sustainability topics linked to managing agents' company pillars

2. Transition planning

Lloyd's expects that over time, in line with expected disclosure requirements impacting Lloyd's, managing agents will include a Transition Plan as part of their Sustainability Strategy submission.

Lloyd's is providing managing agents with an open-source credibility framework to assist in the reporting of transition plans. The proposed framework is divided between: Foundation, Implementation Strategy, Engagement Strategy Metrics & Targets, and Governance & Risk Management. The framework is located at the end of the document.

This framework is aligned with the Transition Plan Taskforce (TPT) Sector Neutral Transition Plan framework and Glasgow Financial Alliance for Net Zero (GFANZ) Transition Plan for financial institutions. We encourage managing agents to review the recommended components and guidance to align with best practice.

3. Measurement of GHG emissions

Lloyd's aims to develop a methodology for baselining the insurance-associated GHG emissions of underwriting portfolios in 2024. Leveraging the Lloyd's Lab partnership with Moody's Analytics, the Corporation will work with the managing agents on creating a credible baseline and a framework for communicating this effectively to our wider stakeholders to ensure we do no create 'hard edges' in the market.

Forming part of Lloyd's disclosures over time, as will be required by regulation, this baseline will also take a forward-looking view of how the business is supporting a global transition and allow us to demonstrate progress against this aim. As the accounting of insurance-associated emissions will be a new area of most insurers' carbon disclosures, this process will require a pragmatic but proportionate approach, to ensure that we do consider all possible outcomes and pathways. Some hard-to-abate sectors will continue to need insurance support over the long-term to ensure a global transition, and we must take a balanced approach in measurement to ensure we create a framework that works for our diverse market.

How will Lloyd's support?

Announced in Q3 2023, Lloyd's is partnering with Moody's Analytics under the Lloyd's Lab Challenge programme, to develop a proof-of-concept for a tool which would allow managing agents to:

- Analyse the insurance-associated emissions of their portfolios
- Consider a forward looking view of their portfolios across regions and sectors.

4. Underwriting the transition

Decarbonising the global economy will require an unprecedented transformation of the financial system, which will create clear opportunities for those that understand and manage this change.

These opportunities will be across all sectors where businesses are innovating to protect and transform their business models through the global transition. This includes hard-to-abate sectors where their outputs will continue to be needed to build infrastructure and technology, as well as provide energy security while the world transitions. In the case for energy, there will be regional and societal needs for traditional energy sources for a number of years, and access to best-in-class insurance products will support them in transitioning. We also know that some of the hard-to-abate sectors, such as energy, will be key to providing capital and innovation to support the global transition.

How will Lloyd's support?

- Providing a proposed toolkit in this document which can be used to assess the credibility of clients transition plans in a simple, effective and consistent way
- Provide guidance on new product areas, such as carbon credits, CCUS, government policies (e.g., build back greener)
- Offer research and development on key technologies and what changes are needed to support emerging business models
- Host roundtables on key topics such as hydrogen, biofuels and carbon capture
- Enable 2% of additional GWP for innovation classes-of business above business-as-usual
- Continued commitment to Lloyd's Disaster Risk Facility to provide contingent risk financing solutions to limit financial impacts of natural catastrophes in emerging economies

Investment in energy transition solutions (including energy efficiency) reached a record high of USD 1.3 trillion in 2022[1]

This is only the beginning, as the scale of investment will still need to increase to meet the growing demand in climate adaptation and mitigation projects. More funds need to be deployed to less mature technologies where financing is lacking and the risks can be high. Managing agents are expected to develop as part of their strategy, the scale up of new products and services. Please refer to the Appendix: metrics and targets for more information.

5. Climate risk management

Many managing agents have already initiated analyses of scenarios that assume the types of losses that are expected in the future, including due to climate change. A significant proportion of these managing agents have adopted the Bank of England's Climate Biennial Exploratory Scenario (CBES) for projected losses. As the quantification and assessment of these risks are still difficult or lacking, this exercise has not led to major changes in underwriting due to its ability to adjust rates annually. Instead, the current focus has been on capacity building.

Lloyd's have already outlined expectations that managing agents embed climate risks into their Risk Management Framework in line with the Bank of England Prudential Regulation Authority's (PRA) Supervisory Statement 3/19[2].

Risk Management Frameworks should incorporate climate risks into quantitative analysis including scenario analysis.

Lloyd's expects that managing agents include climate risk modelling capabilities and metrics as part of their sustainability strategies. This assessment should consider areas of climate risk management covering:

A. Physical climate risks
B. Litigation risks
C. Transition risks

As part of this assessment, managing agents may also consider what actions have been taken to manage their exposure to these risks.

A. Physical climate risks

In its thematic review on catastrophe modelling & climate change, Lloyd's identified a number of requirements managing agents would need to meet to be prepared to manage physical climate risk:

- Model validation policy and model validation analysis documentation must make explicit reference to, or contain a section on, current climate.
- All managing agents must implement their own framework for managing physical climate risk in the context of their view of catastrophe risk to ensure a forward-looking approach to addressing climate impacts on their natural catastrophe exposed portfolio by region peril.

Lloyd's has been seeking insights from the Lloyd's Market Association (LMA) regarding developing a key risk indicator for physical risk. Lloyd's will look to develop a climate key risk indicator focusing on physical risk of increased severity and frequency of flooding, due to sea-level rising – a significant exposure peril for the Lloyd's market.

In 2025 Lloyd's will conduct a data collection exercise around portfolio and aggregate exposure to coastal flooding. Further information and guidance will be provided closer to the time. Managing agents will need to consider what strategy they will need to manage this future exposure.

B. Litigation risks

Climate change is changing the liability landscape and litigation (or the threat of litigation) is being used as a tool to effect changes in businesses climate change response. Managing agents have started to assess the potential exposures of climate liability risks to their business. There are a number of areas to consider, which include:

- Allegations of breach of fiduciary duties and failing to meet public objectives[3] including claims on indirect financing of carbon emissions[4]
- Greenwashing claims against companies and directors alleging that they have misrepresented the impact of their business to the environment[5]
- Claims against companies for their alleged existing or potential contribution to climate change[6]

These cases may have implications on Directors & Officers, Casualty (Environmental Impairment Liability and General Liability) and Specialty (Energy and Political risk) lines.

Lloyd's expects that managing agents examine the potential exposure of these risks and examine how policies can cover litigation risks, and if so, how to proceed with price adequacy during annual renewals.

[2] https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2019/ss319
[3] See e.g., Milieudefensie et al. v Royal Dutch Shell plc (Netherlands), Notre Affaire à Tous et al. v Total, and
[4] See e.g. Abrahams v Commonwealth Bank of Australia and case against BNP Paribas: https://www.amisdelaterre.org/wp-content/uploads/2023/02/dp-affaire-bnp-en-def-bd.pdf
[5] See e.g., Ramirez v Exxon Mobil Corp., ClientEarth v Board of Directors of Shell plc,: ClientEarth v Koninklijke Luchtvaart Maatschappij N.V., a Australasian Centre for Corporate Responsibility v Santos
[6] City & County of Honolulu v. Sunoco LP, Saúl Luciano Lliuya v RWE AG (Germany), Trustee of PG&E Fire Victim Trust v Lewis Chew et al. (USA), and Australian Conservation Foundation v Woodside Energy (Australia).

The LMA is supporting managing agents by developing a number of model contract clauses that can be adopted and/or amended for climate change exposures. This will improve contract certainty, provide greater clarity of cover for policyholders, and allow managing agents to better assess their exposures and to price accordingly.

The LMA has also launched an ESG Academy, designed for professionals in the Lloyd's market to navigate the evolving transition landscape, risk management, and the implications for the Lloyd's market.

Transition risks

How will Lloyd's support?
Lloyd's is launching a Liability focused Climate Realistic Disaster Scenario Exercise in H1 2024. The scope and guidance for the data collection will be provided at the end of year 2023.

Transition risk represents the potential business risks from a global transition. Assessing this risk will be different for each managing agent, and over time may be required to support regulatory requirements. Managing agents may need to consider what assessment is required to understand the transition risks and opportunities.

Transition risk can pertain to underwriting and investment portfolios as both may contain assets which have a heighted exposure to climate change. Both sustainability strategies and responsible investment policies can discuss how transition risk is mitigated.

Managing agents that would like a framework to assess the credibility of their client's transition plan can use Lloyd's open source Transition Plan Credibility methodology, below. In developing the methodology, Lloyd's considered the following frameworks: TPT Sector Neutral Transition Plan framework, GFANZ Expectations for Real-economy Transition Plans, IIGCC: Reported in Investor expectations of Corporate Transitions Plans: From A to Zero, the IFRS S2 Climate-related Disclosures and the Climate Action 100+ Net Zero Company Benchmark.

The Transition Plan Credibility assessment covers the following areas:

- **Governance**
- **Strategy**
- **Target setting**
- **Reporting & disclosures**
- **Climate risk management**

It is up to each managing agent how they use this assessment tool.

How will Lloyd's support?
Lloyd's is providing managing agents with an open-source Client Transition Plan Credibility Framework which can be used to help structure discussion and understand a clients alignment to net zero.

As transition risks keep evolving, managing agents may need to periodically assess their potential exposure and mitigate their risks.

Lloyd's will not be mandating exclusions to any sectors. As wider social and environmental needs, including sustainable development, should be considered by managing agents and factored into sustainable underwriting policies and decisions.

Managing agents have the experience and capability to offer products to their clients to assist with insuring the transition – this includes writing business on a programmatic basis across several lines of business to provide risk mitigation to their client's transition plans as well as insuring low carbon technology and solutions.

Capital & reserving considerations

Lloyd's plans to develop a capital and reserving market survey to assess the capabilities, current approaches, and identify potential gaps in managing agents' reserving and modelling approach to climate change, and is expected to be issued to managing agents in Q4 2023. The outcome of this survey will form part of the Capital and Reserving for Climate Change Thematic Review, to be published in 2024. This will include consideration of allowances for potential liability claims arising from climate change, as well as for more frequent and severe catastrophe losses in the future.

The Thematic Review will provide insight on good practice and guidance to managing agents. At the moment, there are some key challenges remaining for managing agents: forward-looking integration of frequency and severity of these events are not yet integrated in the risk assessments. Further development is needed regarding more granular information on different climate risk types.

Lloyd's expects that managing agents will continue updating these models incrementally year-on-year, to include forward-looking assessments or other procedures that can feed into the future understanding of Lloyd's physical climate risk exposure. This will also lead to a conversation at market and board level.

[7] GFANZ, Expectations for Real-economy Transition Plans.
[8] IIGCC, Reported in Investor expectations of Corporate Transitions Plans: From A to Zero.
[9] Climate Action 100+, Methodologies: Net Zero company benchmark.

Investments

Investments

Introduction

Insurers as asset owners represent the second largest institutional investor base globally. The insurance industry is therefore uniquely placed to collectively support the global transition from carbon intensive activities and manage associated risks from the investments the industry holds.

Responsible investments

Lloyd's has already collected responsible investment policies from all managing agents. Responsible investment policies should set out how managing agents are incorporating environmental, social and governance ("ESG") factors in investment decisions and active ownership.

Risks arising from the global climate transition can be identified, monitored and managed in accordance to each managing agent's sustainability strategy.

Policy

Responsible investment can be integrated into investment policies in many ways, including high-level public statements, codes of business practice, standalone responsible investment policy, or by embedding responsible investment considerations into a managing agent's primary investment policy. A managing agents' approach should be fit for purpose for their business strategy and investment portfolio.

Responsible investment polices serve to:

- Discuss a managing agent's position on ESG issues with internal and external stakeholders
- Clarify how the managing agent interprets its fiduciary responsibilities for capital providers, and for ensuring security of its investments to meet policyholder obligations
- Set out how the managing agent expects investment managers it appoints to handle ESG issues
- Set quantitative or qualitative targets where appropriate for a managing agent, including deadlines where relevant. Examples of targets may include active investment

Monitoring and reporting

Monitoring progress and reporting to stakeholders periodically will support management information and challenge.

In addition, there are organisational and investment level reporting that managing agents can opt into performing. These include:

- Global Reporting Initiative (GRI) – G4 Sector Disclosure for financial services – a global standard for sustainability reporting
- Task Force on Climate Financial Disclosures ("TCFD") – a framework for translating non-financial information about climate change into financial metrics
- Sustainability Accounting Standards Boards ("SASB") – industry standards for defining material ESG issues by sector
- GRI Standards and G4 sector disclosure
- IRIS' catalogue of ESG and impact metrics

Review

Lloyd's expects managing agents to review their responsible investment polices regularly to measure success and determine whether it continues to reflect the managing agent's sustainability strategy and investment beliefs. For example, there may be new approaches to responsible investing that could be incorporated, or the managing agent may have expanded into a new asset class that the policy does not cover. If targets have not been met, it's important for managing agents to evaluate what went wrong and why, and introduce measures to ensure future success.

- actions, staff training, company

engagement results, reducing the portfolio's carbon footprint under scopes 1, 2 and 3.

Managing agents should understand and record their issuers' stewardship activity to ensure alignment with managing agents' climate and other relevant sustainability goals. At the same time, Lloyd's understands the resource and limitation bottlenecks managing agents may face with stewardship, as it may be a challenge for limited equity positions or regarding government and sovereign bonds.

How will Lloyd's support?
Lloyd's will work with the market to understand how we collectively move forward in monitoring and managing climate change risk exposures.

This includes exploring solutions for harmonising the approach used to quantify scope 3 emissions data arising from investments held by managing agents.

Lloyd's will publish guidance on Principle 8 Investments, sub-principle 5 – Responsible Investments. This will illustrate best practices for how managing agents can manage risks arising from the global climate transition.

[10] IMF, Reaching Net Zero Emissions

Climate risk management

Managing agents are exposed to climate risks as asset owners across transition, physical and litigation risks:

– Transition risk – business related risks that follow societal and economic shifts towards a low-carbon and a more climate friendly future. This risks include policy and regulatory risks, technological risks, market risks, reputational risks and legal risks. These risks are interconnected and may create capital and operational consequences for the assets managing agents hold.

– Physical risk – investments managing agents hold could be at financial risk from climate change both due to direct infrastructure damages and productivity disruptions caused by failures in operations. Physical risk can therefore impact the financial sustainability of companies managing agents invest in.

– Litigation risk – managing agents' investment could be subject to financial instability due to legal action on their corporate actions, inactions, products, services, or other events.

Some managing agents have initiated analyses of scenarios that assume losses expected in the future. Larger managing agents have adopted the Bank of England's Climate Biennial Exploratory Scenario ("CBES") for projected losses.

Lloyd's expects managing agents to consider and embed climate risks into their investment risk management framework in line with the Bank of England's Prudential Regulation Authority's ("PRA") Supervisory Statement 3/19.

By the end of 2026, managing agents are expected to have developed transition plans for their investments as part of their responsible investment policy, where these are appropriate for their business.

How will Lloyd's support?
Lloyd's will review managing agents' responsible investment policies in 2023. Thematic feedback will be provided which managing agents should use to develop their policy in 2024

Transition plans may consider:

– Considerations around an insurers own operational emissions
– Their financed emissions (scope 3 category 15) generally calculated at portfolio or sector level
– Any emission reduction targets across all scopes 1, 2 and 3.

As managing agents are expected to develop their own company transition plans, where they feel these are necessary, they will need to include scope 1, 2 and 3 footprint covering all assets for which there is an accepted accounting methodology, e.g. Partnership for Carbon Accounting Financials

Managing agents are encouraged to include considerations of the issuers' climate management and goals. This is expected to ensure climate ambition alignment between managing agents and the asset's management term. These considerations may include an aggregated benchmark assessment of an issuer's emissions or climate ambitions, compared to their peers.

Managing agents may consider reviewing the **Transition Plan Credibility Assessment** found in the toolkit appendices of this document, which has been developed by Lloyd's to provide a desktop assessment for clients/ portfolio companies transition plans. Managing agents could consider action if the climate-related performance is deviating from their own strategy and engagement has been unsuccessful as set out in its stewardship policy.

Use of data

We know the availability and quality of data can be a challenge and expect that third-party data will play a role in providing input for investment assessment processes with respect to transition and responsible investments.

However, as with exposure management models, it's crucial for managing agents to take ownership of data selection decisions it makes. In selecting and/or updating a third-party data provider, managing agents should ensure they understand how any models derive ratings, GHG emissions, etc., and any limitations in the data they use so that any investment decisions made using third-party data are appropriately understood.

Regulatory toolkit

Reporting requirements and decarbonisation sectoral considerations

Introduction

Lloyd's recognises the role of the financial services sector in the global effort to mitigate climate change, and its own role in leading and supporting managing agents. This is also recognised by international regulators who are starting to put in place regulatory standards for business, which as an insurance industry we will need to comply with.

A number of frameworks and approaches have already been announced, which we can start to use to understand future expectations for the insurance industry, as well as thematic areas of focus within the frameworks.

Thematic areas of focus in other parts of the financial services industry:

- Board ownership of the climate strategy
- Greenhouse gas (GHG) emissions measurement using the Partnership for Carbon Accounting Financials (PCAF)
- Setting emission intensity reduction targets at corporate and portfolio level
- Adjusting the company's risk profile to include actively participating in the transition to a lower carbon economy
- Developing portfolio-specific decarbonisation strategies, for example, a bespoke strategy for marine, transportation and construction

Regulatory requirements

Since the voluntary adoption of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, TCFD-aligned disclosure regimes have been developed across multiple jurisdictions across different countries.

Going forward, the UK Department for Business and Trade has announced the intention to create the UK Sustainability Disclosure Standards (SDS), building upon the International Sustainability Standards Board (ISSB)[11]. Lloyd's encourages managing agents to familiarise themselves with the ISSB requirements, as the UK SDS are expected to be created as early as July 2024. After that date, the UK Government and FCA may require mandatory disclosures in line with the SDS for UK registered companies, limited liability partnerships and listed companies. The FCA is expecting to bring these requirements into force for accounting periods beginning on or after 1 January 2025[12].

The International Organization of Securities Commissions (IOSCO) has also announced its endorsement[13] of the ISSB which may mean that market regulators and policymakers can impose mandatory ISSB disclosures in their jurisdictions. Other jurisdictions such as Japan, Canada, China, New Zealand, South Africa, Australia, and Singapore have also announced their intention to adopt the ISSB Sustainability Standards as part of their reporting regime.

Further regulations are expected on Transition Plans following the delivery of the Transition Plan Taskforce (TPT) Disclosure Framework in October 2023. The TPT publication will also soon be accompanied by sector specific guidance which is expected to be published in early 2024. The UK government has signposted that it may introduce requirements for large companies to report transition plans if they have them.[14]

It is important that managing agents remain informed about the reporting requirements that they may be subject to in each territory in which they operate, and ensure they are able to meet any requirements they are subject to, when adopted.

Below is a summary of sustainability and climate regulatory frameworks and guidance. The list does not cover all jurisdictions but includes details for a number of territories that are likely to be relevant to managing agents. The key requirements highlight relevant aspects of each regulation.

Please note that this is not a live document and so this is an up-to-date list at the time of publishing. Future changes to regulatory requirements will be available in future iterations of the roadmap.

Lloyd's is not mandating any of the below frameworks for managing agents, but they remain a useful tool for structuring strategy or transition.

[11] https://www.gov.uk/guidance/uk-sustainability-disclosure-standards
[12] Primary Market Bulletin 45 | FCA
[13] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD741-Endorsement-Decision.pdf

Country	Authority	Scope	Timeline	Key Requirements
United Kingdom	**Prudential Regulation Authority**	Supervisory expectations for banks, building societies and insurance companies	By the end of 2021	– Fully embedded management of climate-related financial risks and governance. – Evidence how they will mitigate climate financial risks and to have a credible plan or policies in place for managing exposures. – Conduct scenario analysis to understand their solvency and liquidity.
	FCA[16]	Issuers of premium listed shares and standard. Aligned rules for asset managers, life insurers and FCA-regulated pension providers	Accounting periods after January 2021 (premium) and January 2022 (standard)	– Comply or explain basis – Statement in annual financial report regarding compliance with TCFD Recommendations – Entity report for asset managers, life insurers and FCA-regulated pension providers. As the entity operates in a country (the UK) that has made a net zero commitments, the entity should assess how that goal has been considered in its transition plan.
	BEIS/FRC	All companies required to produce non-financial report, large private companies, large LLPS	Accounting periods after 6 April 2022	– 8 required disclosures based on the TCFD Recommendations.
	TPT	N/A	To be confirmed	– Sector-neutral framework for transition plans. – A good practice transition plan should cover: an entity's high-level ambitions to mitigate, and opportunities of the transition to a low economy; short, medium, and long-term actions; governance and accountability mechanisms; and measures to address material risks

[14] https://www.gov.uk/government/publications/green-finance-strategy/mobilising-green-investment-2023-green-finance-strategy
[15] Bank of England – Enhancing banks' and insurers' approaches to managing the financial risks from climate change – PS11/19 – https://www.bankofengland.co.uk/-/media/boe/files/prudential regulation/policy-statement/2019/ps1119.pdf
[16] FCA – PS20/17: Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations. PS20/17: Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations (fca.org.uk); FCA – Policy Statement PS21/23 Enhancing climate-related disclosures by standard listed companies. PS21/23: Enhancing climate-related disclosures by standard listed companies (fca.org.uk); FCA – Policy Statement PS21/24 Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers – PS21/24: Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers

Country	Authority	Scope	Timeline	Key Requirements
United States	**SEC[17]**	Domestic and foreign private issuers who are SEC-reporting or are filing a registration statement with the SEC	Larger companies – fiscal year 2023/Smaller companies – fiscal year 2024 (pending)	– Climate-related information disclosed as part of the financial statements and audited. – Disclosure of impacts on strategy, business model, resulting from climate risks. – Disclosure of GHG Scope 1 and 2 and material Scope 3 emissions. Disclosure of any climate-related targets and goals.
	Certain US States[18]	Insurance companies with nationwide premiums written of at least $100 million	In force	– Submit survey aligned with TCFD
EU[19]	**CSRD – need to be transposed by EU countries**	Companies with securities listed on EU-regulated market and large EU companies[20]	From 1 January 2024 for large public-interest companies subject to NFRD; From 1 January 2025 for large companies	– Detailed disclosure on ESG impacts, risks, and opportunities across the entire value chain. – Subjected organisations will have to report following the European Sustainability Reporting Standards (ESRS)[21]. Aligns with ISSB standards on the definition of financial materiality. – Organizations must perform a materiality assessment in each sustainability topic (climate, pollution, water and marine resources, biodiversity and ecosystems, circular economy, own workforce, worker in the value chain, affected communities, consumers and end-users and business conducts). Only material topics will be reported. This materiality assessment will be subject to external assurance. – Given the importance of climate change to regulators and stakeholders, managing agents subject to these rules may find that this area is material.

[17] US SEC: The Enhancement and Standardization of Climate-Related Disclosures for Investors (Proposed)
[18] NAIC. Proposed redesigned NAIC Climate Risk Disclosure Survey. https://content.naic.org/sites/default/files/inline-files/2022ProposedClimateRiskSurvey_0.pdf
[19] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021PC0189&from=EN
[20] Large EU Companies meet 2 of the following: more than 250 employees; a turnover of more than €40 million; or total assets of €20 million.
[21] csrd-delegated-act-2023-5303_en.pdf (europa.eu). To note that the Delegated Regulation is subjected to further scrutiny by the European Parliament and Council by end of September 2023 until its adoption.

Country	Authority	Scope	Timeline	Key Requirements
Canada[22]	**OFSI**	Banks and other federally regulated insurers	To be confirmed	– Mandatory climate-related financial disclosures. – Requirement to calculate financed emissions aligned to PCAF and develop a Climate Transition Plan
New Zealand[23]	**New Zealand Government**	Large, listed companies, insurers, banks, non-bank deposit takers, and investment managers	Into effect in 2023	– Comply with the climate-related disclosure framework including transition plans.
Switzerland[24]	**Financial Market Supervisory Authority (FINMA)**	Banks and insurance companies	To be confirmed	– Banks and insurance companies are required to inform the public adequately about their risks including the consequences of climate change and providing qualitative and quantitative information.
Australia	**Australian Prudential Regulation Authority (APRA)**	Banks, insurers, and superannuation trustees	N/A	– A prudent institution would take a strategic and risk-based approach to the management of the various risks and opportunities arising from climate change and set climate-related targets for its activities.
	Australian Government[26]	Large companies and financial institutions[27]	To be confirmed	– Climate-related financial disclosure consultation paper – aligned TCFD disclosures including transition plans and scope 3 requirement from their second reporting year onwards. – Proposed assurance of climate disclosures included as part of the draft.

[22] Canada: OFSI. Climate Risk Management

[23] New Zealand: Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 https://www.legislation.govt.nz/act/public/2021/0039/latest/LMS479633.html

[24] Switzerland: Financial Market Supervisory Authority (FINMA) transparency obligations for climate risks https://www.finma.ch/en/news/2021/05/20210531-mm-transparenzpflichten-zu-klimarisiken/?pk_campaign=News-Service&pk_kwd=FINMA specifies transparency obligations for climate risks

[25] Australian Prudential Regulation Authority (APRA) Final Prudential Practice Guide CPG 229 Climate Change Financial Risks Final Prudential Practice Guide CPG 229 Climate Change Financial Risks (apra.gov.au)

[26] Climate-related financial disclosure – consultation paper (treasury.gov.au)

[27] This has been described as entities (including financial institutions that meet two of the following criteria: the consolidated revenue for the financial year of the company and any entities it controls is $50 million or more; the value of the consolidated gross assets at the end of the financial year of the company and any entities it controls is $25 million or more; the company and any entities it controls have 100 or more employees at the end of the financial year.

Country	Authority	Scope	Timeline	Key Requirements
Malaysia[28]	**Joint Committee on Climate Change**	Commercial banks, investment banks, insurance and reinsurance companies, and fund management companies	N/A	– Integrate climate-related risks and considerations into their business. – Disclose and describe the targets. Financed/Insured Emissions by Asset Class and portfolio alignment as part of an advanced response.
Egypt[29]	**Egyptian Financial Regulatory Authority**	Companies listed on the Egyptian Stock Exchange	Annual financial statements beginning with fiscal year 2022	– Submit disclosure reports and financial impacts of climate change in line with TCFD
Japan[30]	**Bank of Japan**	Financial institutions	To be confirmed	– The Bank is encouraging financial institutions to enhance disclosures based on TCFD.
Thailand[30]	**Bank of Thailand**	Financial institutions	To be confirmed	– Set disclosure standards for financial institutions that are consistent with international frameworks such as the TCFD as well as to develop climate stress testing.
Hong Kong[32]	**Hong Kong Monetary Authority**	Banks, restricted license banks, and deposit-taking authorized institutions	From 1 January 2024	– Authorised institutions should prepare climate-related disclosures in accordance with TCFD.

[28] Central Bank of Malaysia. TCFD Application Guide for Malaysian Financial Institutions Task Force on Climate-Related Financial Disclosures (TCFD) Application Guide For Malaysian Financial Institutions (bnm.gov.my)

[29] Egypt: Financial Regulatory Authority Decrees No. 107 and 108 EGX-listed companies engaged in non-banking financial activities require new disclosure reports on sustainability practices and the financial impacts of climate change – Tue 13/7/2021 – Building Bridges, Not Barriers (fra.gov.eg)

[30] Bank of Japan. Climate Change Initiatives: Disclosure Based on TCFD Recommendations tcfd22.pdf (boj.or.jp)

[28] Bank of Thailand. Repositioning Thailand's Financial Sector for a Sustainable Digital Economy consultation-paper-en.pdf (bot.or.th)

[28] Hong Kong Monetary Authority guidance_climate_disclosures.pdf (hkex.com.hk)

Country	Authority	Scope	Timeline	Key Requirements
Singapore[33]	**Singapore Stock Exchange**	All companies listed on the Singapore Exchange	From January 1, 2025	– Climate-related disclosures consistent with TCFD.
Brazil[34]	**Securities and Exchange Commission**	Securities issuers	Effective January 2, 2023	– Include whether they consider the TCFD recommendations
Global[35]	**IISB**	Pending	Reporting periods beginning on or after January 1, 2024	– Material risks and opportunities are defined as those that "can reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term". – Disclose in alignment with TCFD including scope 3 reporting. In particular, insurance companies shall disclose absolute gross financed emissions, disaggregated by scope 1, 2 and 3 (not required on the first annual reporting period). – Effects of significant climate on its financial position, financial performance, and cash flows. – Disclosure of a transition plan and plans and assumptions for legacy assets (notably O&G assets, coal).

[33] Singapore Stock Exchange. Practice Note 7.6 Sustainability Reporting Guide | Rulebook (sgx.com) Practice Note 7.6 Sustainability Reporting Guide | Rulebook (sgx.com)
[34] Brazil: Securities Exchange Commission https://conteudo.cvm.gov.br/legislacao/resolucoes/resol059.html
[35] ISSB International Sustainability Standards Board–IFRS Standard and Insurance based requirements: IFRS–IFRS S2 Climate-related Disclosures. IFRS Standard and Insurance based requirements: IFRS–IFRS S2 Climate-related Disclosures

Global view and key decarbonisation sectoral challenges

Globally, financial institutions are implementing climate change management strategies to monitor and mitigate climate-related impacts at different levels of ambition.

We highlight below some key sector observations relevant to managing agents' portfolios:

Energy transition: Over the years, renewable technologies have significantly improved in efficiency while reducing in cost. Nonetheless, renewables are not yet fit to replace the current energy system alone. It is well known that further technology scale-up is needed, alongside transitioning the power grid towards a more flexible system to allow for natural/expected renewable energy power variations.

Natural gas fuel source replacement for heating use has generated breakthroughs and continues to need technology investments. Even though hydrogen technologies are developing rapidly, they are not yet commercially viable and a number of challenges remain to be solved, including higher safety standards.

Built environment: The low-carbon transition within built infrastructure brings unique challenges. As assets last for an extended period of time, the transition is tackled by more efficient retrofitting materials and technologies, mostly focused on decreasing energy consumption. Transition must also evaluate long-term social and cultural impacts.

Land use sectors: Social impacts are central to land-use sectors such as agriculture and mining. Their transition means efficiency improvement (more output with fewer hectares needed). For agriculture, transitioning is a delicate process as it can have disastrous negative social impacts if misjudged (e.g. can cause food scarcity, triggering numerous other social negative effects), requiring scalability and affordability as pillars for any change.

For mining, transitioning means improving efficiency, but also recycling and circularity. Raw material availabilities are the key bottleneck, especially when these materials are pivotal parts to expediting necessary technological breakthroughs across many sectors. Raw material mining faces challenges to improve, decreasing emissions and increasing extraction, and in parallel, improving circularity and recycling practices.

However, the transitioning of land-use sectors also offers opportunities; it is recognised that many of the best solutions to climate change will be natured-based, and 'freed-up' areas could become conservation areas, like offset farms, supporting further the decarbonisation of the economy with natural-based carbon sequestration.

Maritime and aviation: These sectors are viewed as critical for the economy and to address climate change impacts. These sectors represent a part of the transportation industry, which saw global emissions increase by 2.1% in 2021 growth in advanced economies[36].

Shipping, which represents about 3% of global emissions according to the Fourth International Maritime Organization (IMO) GHG Study 2020 is seen as one of the most energy efficient modes for transport. During the COVID-19 pandemic, higher demand for international shipping brought to attention the sector's role in the global economy, representing 80% of global trade, and its transition challenges. Although, the sector has seen a rise in investments in low-carbon technology solutions, further disruption and most importantly, scalability and affordability, are needed to achieve the required transition.

Aviation is expected to have more stringent regulation to drive the transition. In contrast to shipping, the aviation industry is a capital-intensive sector where transition costs can put pressure on the industry's already high fixed costs, volatile cash flow and profitability. Transitioning bottlenecks to overcome include continuing the development of sustainable aviation fuels, and the continuing development and implementation of offsetting programmes.

[36] CO2 Emissions in 2022 – Analysis – IEA
[37] Faber, J. et al. (2021), Fourth IMO GHG Study 2020, International Maritime Organization (IMO)
[38] Review of Maritime Transport 2021 | UNCTAD

Transition considerations

Considering client transition plans

As part of meeting evolving regulatory requirements in setting their own transition plans, the insurance industry will have a crucial role to play in enabling, and accelerating, a global transition to a lower carbon economy.

As part of this undertaking, where material and where allowable by local regulation, the industry may consider collecting information on insureds' transition plans to consider how they are making progress on transition and the credibility of transition plans. This exercise will also help protect sustainable business models and mitigate possible economic volatility from a transition by understanding the long-term plans of their clients and how they can support those whose business models will be at risk from a global transition.

This progress of transition will be a journey for insurance clients globally, and this open-source framework looks to provide a simple framework to assess transition plans and allow for a process that helps clients as they build resilience, transition, and look to growth. Please note the below framework is not being mandated by Lloyd's, but may prove a useful tool to supplement client engagement.

The framework looks to meet a number of needs of the key stakeholders:

Stakeholder	Stakeholder needs of transition approach	Expectations of this transition approach
Customers	– Customers need certainty that insurance cover will remain where they are making progress on transition or unable to transition due to societal or other factors	– Customers are able to provide information to support consideration of their transition plan. – Customers explain where transition is not possible and how this is reviewed over time as further information / innovation becomes available
Underwriters	– Underwriting firms will need to meet evolving regulatory requirements as well as any internally set ambitions in designing their own transition plan – Underwriters need a process by which to consider a client's transition journey and what information may be required to make informed risk-based decisions	– Underwriters are able to understand what information is needed to meet regulatory requirements and inform their own transition journey – Underwriters are able to understand how a transition journey may progress over time
Brokers	– Brokers need a process that works for customers and insurers that helps structure discussions and understands what information may be requried to inform a long-term view of risk for insurers	– Brokers are able to support customers on their transition journey with the right products and services to meet their needs – Brokers are able to share the expectations of an insurer in an open way with customers

Where transition progress may be nuanced, the below framework may help structure the available information. Not all clients and sectors will be at the same place on this journey, but the expectations would be that progress is made over time across the thematic areas. If managing agents or brokers choose to use this framework, it should follow a materiality assessment where clients have been identified based on significance in portfolio and presenting a high transition risk.

Thematic areas	Taking initial steps on transition	Making progress on transition	Embedding transition	Best in class	Alternatives to transition
Governance	The company has outlined a plan to set up governance on their transition plan	The company has publicly disclosed dedicated personnel, a timeline and objectives towards transition	The company has nominated a board member or board committee with explicit responsibility for oversight of their transition plan	The company has an embedded governance process for their transition including remuneration for senior executives to incorporate climate change performance	In some cases a client may be unable to transition due to regional or societal factors. This justification will be documented and reviewed over time, considering that some of the justification (e.g. societal issues) may be timebound and subject to change as a global transition progresses. Insurers should consider which of the factors may align to their risk appetite
Strategy	The company has identified the set of actions it intends to take to set its transition plan	The company has identified targets over a specified time frame. This should include description of how actions will address material sources of GHG emissions	The company has quantified key elements of its decarbonisation strategy with respect to the major sources of emissions, including Scope 3 where applicable (e.g., changing technology or product mix, supply chain measures, R&D spending)	A company has outlined their transition plan with supporting financial plans, budgets, and related financial targets (e.g., amount of capital / CAPEX and other expenditures / OPEX supporting its decarbonisation strategy)	
Target setting	A company has taken qualitative steps to setting targets, including outlining the metrics the organisation will monitor to track progress against plans and targets, (e.g. operational and financial metrics)	A company has considered their Scope 1 and 2 emissions and put quantitative targets in place for specific areas of their business	A company has set a reduction target covering their Scopes 1 and 2, and has taken quantitative steps on setting Scope 3 targets for emissions categories relevant to their business	A company has set a target aligned with the Science Based Targets Initiative (SBTI) or similar methodology, which include short, medium and long-term targets	
Reporting and disclosures		The company has publicly made a net-zero commitment	The company has publicly made a net-zero commitment tied to SBTI or other 3rd party validation and has published information on its operational (Scope 1&2) GHG emissions	The company has publicly made and validated a net-zero commitment, and also published Scope 3 emissions, either in total or in the most relevant categories for the company's sector, where applicable	
Climate risk management	The company has made an independent assessment of climate related risks	The company incorporates climate change risks and opportunities in their strategy	The company undertakes climate scenario planning, and has disclosed the results of this analysis	The company's climate scenario planning is linked to their transition plan	

Transition planning

Transition planning

Considering transition plans at managing agent level

Lloyd's is providing managing agents with an optional framework to assist in the reporting of transition plans. The proposed framework is divided into five main elements: Foundation, Implementation Strategy, Engagement Strategy, Metrics and Targets, and Governance & Risk Management. This framework is aligned with the TPT Sector Neutral Transition Plan framework and GFANZ Transition Plan for financial institutions – it is expected that these frameworks will converge over time and Lloyd's will provide further guidance as the frameworks iterate

Further changes will be expected on Transition Plans as the TPT delivers the latest draft in November 2023 as well as sector specific guidance such as Asset Owners. The final guidance will consider the changes introduced by the final draft.

Please note that Lloyd's are not mandating the below framework, however, managing agents can use the guidance below to structure their own transition plans and iterate them over time.

Area	1. Foundation	2. Implementation Strategy	3. Engagement Strategy	4. Metrics & Targets	5. Governance and Risk Management
Core considerations	**Ambition setting** Such as alignment with a 1.5-degree pathway	Integrate net zero into business and financial planning	**Client engagement** Client transition plans and barriers at core of regular engagement	**GHG emissions** Report scope 1, 2 and 3 emissions including financed emissions	Central steering Ensuring effective governance structures are in place
		Products and services Use existing and new products to support clients decarbonisation.	**Industry engagement** Proactively engage with peers	**Target setting and measurement** Specific metrics to track progress towards net zero	Remuneration Providing climate-linked financial incentives through remuneration policy
		Portfolio monitoring Climate as key element of portfolio strategy and decision making	**Engagement with government, public sector, and civil society on public lobbying**		Risk Management Framework (RMF) Embedding all different climate risks at the RMF
		Policies and conditions Evaluate policies and conditions on priority sectors			

Data & tooling – Consistent improvements and integration of data & tooling throughout all processes as central to each decision-making and steering process

Transition planning components

1. Foundation

Core considerations

Ambition setting — Aligns with TPT 1.1 and 1.2 and GFANZ foundations 1) Objectives and priorities

Describe your ambition by clearly stating your objectives and net zero target in alignment with a 1.5-degree pathway.
Include as part of your net zero target:
- A net zero definition and overarching principles.
- Include interim (5-10 years) and long-term targets, definition of boundaries (activities and portfolios included), coverage of scope 1, 2 and scope 3 emissions and metrics.
- Describe the overall objectives and priorities to respond to climate risks and opportunities, including the transition to a low carbon economy of clients and key financing strategies.
- Describe the implication on products and services, resources, and capital expenditures.
- Provide explanation of significant challenges and uncertainties relating to policy and regulatory change, technological developments, shifts in client and consumer demand, and the physical impacts of climate change. This should take into account different geographical contexts.
- Role of carbon offsets on meeting the targets, if applicable.

2. Implementation Strategy

Core considerations

Integrate net zero into business and financial planning — Aligns with TPT 2.1 and 2.4 and GFANZ foundations 1) Objectives and priorities

Disclose a roadmap with clear short-, medium- and long-term goals to deliver net zero including changes to business strategy and resource allocation.
Include as part of your roadmap the impact of the implementation strategy and engagement strategy on the entity financial position, performance, and cash flows. This can include the following:
- Overview on how the financial position will evolve to meet the net zero target.
- Information regarding research and development on new products and services related to the low carbon transition and client decarbonisation.
- Use of internal carbon prices.

Products and services — **Aligns with TPT 2.2 and GFANZ Implementation Strategy 1) Products and services**

Use existing and new products to support clients' decarbonisation.
Disclose as part of your transition plan:
- How your products and services will support your net zero targets and your clients decarbonisation
- Development of insurance coverage for renewable energy and new product areas such as carbon credits, hydrogen, biofuels, CCUS, government policies (e.g., build back greener)
- Provide a quantification of the impact when possible.

2. Implementation Strategy

Core considerations	**Portfolio monitoring**	Aligns with TPT 2.3 and GFANZ Implementation Strategy 2) Activities and decision-making
	Climate as key element of portfolio strategy and underwriting and investment decision making. **Disclose as part of your transition plan:** – How client transition plans have been integrated into decision making processes, tools, and policies – Describe how net zero is considered as part of the portfolio construction – Describe any adjusting factors in the risk models	
	Policies and conditions	Aligns with TPT 2.3 and GFANZ Implementation Strategy 3) Policies and Conditions
	Evaluate policies and conditions on priority sectors **Disclose as part of policies and conditions:** – Any conditions implemented on priority sectors or activities, such as coal, oil and gas and deforestation. Other areas to cover can be biodiversity or methane. – Each of the policies and conditions implemented should be aligned to 1.5-degree pathway relevant to each sector. – Describe how client transition plans are part of the conditions implemented.	

3. Engagement Strategy

Core considerations	**Client engagement**	Aligns with TPT 3.1 and GFANZ Engagement Strategy 1) Clients and portfolio companies

	Disclose how clients' transition plans are at the core of regular engagement
	Disclose as part of your transition plan:
	– Engagement activities with clients including prioritisation and escalation processes.
	– Provide key metrics used to track progress:
	  – % of portfolio companies that have set or committed to setting science-based targets, or with transition plans,
	  – Climate engagements as % of total engagements and share of portfolio.
	  – % of climate engagement where no progress, some progress or full progress is achieved
	Consider using the methodology designed by Lloyd's to assess the credibility of their client/s transition plan	

3. Engagement Strategy

Core considerations	**Industry engagement**	Aligns with TPT 3.2 and GFANZ Engagement Strategy 2) Industry
	Disclose how the entity proactively engage with peers in entity's industry. **Include as part of this information:** – Membership of trade organisations and disclose how the entity ensures that the trade organisations agenda do not jeopardize the net zero goals – Disclose other engagement with peers and other entities to support on the entity net zero goals – Include participation on any coalition used to engage with clients and portfolio companies.	
	Engagement with government, public sector, and civil society on public lobbying	Aligns with TPT 3.3 and GFANZ Engagement Strategy 3) Government and Public sector
	Disclose the engagement with government, regulators, public sector, and civil society via direct engagement or through trade organization including how they support to meet the entity net zero goal.	

4. Metrics & Targets

Core considerations	**GHG emissions**	Aligns with TPT 1.2 and GFANZ Metrics and targets 1) Metrics and targets
	Disclose scope 1 and 2 operational emissions and scope 3 category 15 finance and insurance-associated emissions on an annual basis. **Include as part of the metrics:** – Absolute gross Scope 1 and 2 GHG emissions expressed as metric tonnes of CO2 equivalent. Using the Greenhouse Gas Protocol Corporate Standard – Absolute gross Scope 3 financed emissions (related to investments and project finance) using the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting and Reporting Standard Part A: Financed Emissions. – Absolute gross Scope 3 insurance-associated using the PCAF Global GHG Accounting and Reporting Standard for the Insurance Industry ("Insurance-Associated Emissions Standard". – Consider including metrics useful for their decision-making such as total carbon emissions and total carbon footprint for each fund or portfolio strategy. – Provide explanations on any significant assumptions and limitations of the data. To note Lloyd's aim to develop the market baseline of insurance-associated GHG emissions of the underwriting portfolios in 2024. Refer back to the section below related to metrics to consider disclosing alignment metrics and financing the transition metrics.	

4. Metrics & Targets

Core considerations	**Target setting**	Aligns with TPT 4.1, 4.2 and 4.3 and GFANZ Metrics and targets 1) Metrics and targets
	Translating climate ambitions into milestones to steer on and specific metrics to track progress. **The target should include:** – Whether the targets are on an absolute or intensity basis – The period of the target – The coverage (scope 1 and 2 or 3), base period, and measurement to track progress – For long medium- and long-term targets, interim, targets (5-10 years) – Metrics used to track progress – Explain year on year clear progress to meet the target – Identified levers towards decarbonisation.	

5. Governance & Risk Management

Core considerations	**Central steering**	Aligns with TPT 5.1, 5.2, 5.3 and 5.5 and GFANZ Governance 1) Roles, responsibilities, and renumeration and 2) Skills and culture
	Ensure that effective governance structures are in place. Boards and Executives need to demonstrate effective integration of net zero targets into decision making across business strategies, planning, governance, and risk management processes. **Include as part of your governance:** – Direct board involvement throughout KPIs definition and implementation, i.e., emission reduction targets – How the board review the transition plan. – Responsibilities have been clearly documented on mandates and role description applicable to the board or committee. – Climate management performance included in remuneration strategy for senior management and company staff – Clear definition of a body or individuals on senior management responsible for the delivery of the net zero target. – Description of how entity procedures and systems have been amended to support the delivery of the net zero target. – Firm-wide climate training, potentially covering other sustainabiltiy topics linked to managing agents' company pillars.	

5. Governance & Risk Management

Core considerations	**Remuneration**	Aligns with TPT 5.4 and GFANZ Governance 1) Roles, responsibilities, and renumeration
	Provide climate-linked financial incentives through remuneration policy ensuring that net zero targets are embedded into the performance review and remuneration strategy for senior management and company staff. Include as part of the renumeration information: – The key performance indicators (KPIs) – The percentage of Executive renumeration, and staff linked to the transition plan.	
	Risk Management Framework (RMF)	Aligns with TPT 1.2 and GFANZ foundations
	Embedding all different climate risks at the RMF and adjusting risk appetite to enable investments in climate opportunities. Climate as key element of portfolio strategy and underwriting and investment decision making. Disclose as part of your transition plan: – How client transition plans have been integrated into decision making processes, tools, and policies – Describe how net zero is considered as part of the portfolio construction – Describe any adjusting factors in the risk models	

Metrics and targets

Managing agents can report the following metrics to disclose how they are managing their climate risks and opportunities. Managing agents are encouraged to familiarise with these foundational metrics and moving towards medium and advanced metrics in the next reporting cycles.

Category	Example metrics	Unit of measure	Regulatory Alignment
Physical Risks	Probable Maximum Loss (PML) of insured products from weather-related natural catastrophe including a breakdown by geographical location.	Reporting currency	IFRS S2 Exposure Draft Climate Related Disclosures – Appendix B Industry-based disclosure requirements B17 – Insurance FN-IN-450a.1
	Total amount of monetary losses attributable to insurance pay-outs from (1) modelled natural catastrophes and (2) non-modelled natural catastrophes , by type of event and geographic segment (net and gross of reinsurance)	Reporting currency	IFRS S2 Exposure Draft Climate Related Disclosures – Appendix B Industry-based disclosure requirements B17 – Insurance Anticipated financial FN-IN-450a.2
	Assets exposure vulnerable to acute and chronic physical climate risk, split by sector and geography, surfacing particular 'hot spots' of identified material vulnerability	Reporting currency	TCFD Guidance on Metrics, Targets and Transition Plans Table A2.1
Transition Risks	Exposure to carbon related industries by industry Total gross exposure to all industries	Reporting currency	TCFD Guidance on Metrics, Targets and Transition Plans Table A2.1
	Percentage of total gross exposure to each carbon related industry	Percentage %	
Opportunities	Net premiums written related to energy efficiency and low carbon technology.	Reporting currency	IFRS S2 Exposure Draft Climate Related Disclosures – Appendix B Industry-based disclosure requirements – Insurance– FN-IN-410b.1

[39] PML is defined as "the anticipated value of the largest monetary loss affecting the entity's insurance portfolio that could result from weather related natural catastrophes and is based on catastrophe modelling and exceedance probability (EP)".
[40] Modelled natural catastrophes are typically large-scale events, such as hurricanes and earthquakes, that the entity has analysed using a catastrophic risk model.
[41] Non-modelled events are typically smaller-scale events, such as floods, droughts, snowstorms, and tornados, that the entity has not analysed using a catastrophic model (CAT model).

Where firms may develop transition plans, these metrics can assist in considering an underwriting portfolio and the possible methods of monitoring transition over time.

Category	Example metrics	Unit of measure	Regulatory Alignment
Financed emissions and portfolio alignment	Disclose Financed emissions (absolute and intensity) using PCAF methodology	Metric tons (t) CO_2-e, (for absolute) Metric tons (t) CO_2-e per unit of physical or economic output (for intensity)	TCFD Guidance on Metrics, Targets and Transition Plans Table C1 TPT Implementation Guidance s.4.3 IFRS S2 Climate-related Disclosures Appendix B Application guidance B63 (a)
	Weighted Average Carbon Intensity	Metric tons (t) CO2e/$M revenue	TCFD Guidance on Metrics, Targets and Transition Plans Table A2.1
GHG operational emissions	Own Scope 1 and 2 footprints and target Scope 3 (categories 1 to 14) target and footprint	Metric tons (t) CO_2-e, (for absolute) Metric tons (t) CO_2-e per unit of physical or economic output (for intensity)	TPT Implementation Guidance s.4.3
Financing the transition	Climate solutions investment ratio by revenue	Reporting currency	TCFD Guidance on Metrics, Targets and Transition Plans Table A2.1 TPT Implementation Guidance s.4.2
Engagement	% of portfolio companies that have set or committed to setting science-based targets, or with transition plans	% percentage	TPT Implementation Guidance s. 3.1
	Climate engagements as % of total engagements and share of portfolio	% percentage	TPT Implementation Guidance s. 3.1
	% of climate engagement where no progress, some progress or full progress is achieved	% percentage	

[40] Carbon related industries include but are not limited to: Oil, Gas & Consumable Fuels, Chemicals, Construction Materials, Metals & Mining, and Paper & Forest Products, Air Freight & Logistics, Airlines, Marine, and Road & Rail, Automobiles, Homebuilding, Beverages and Food Products, Electric Utilities, Gas Utilities and Multi Utilities, and Real Estate Management & Development.

The following metrics have been classified as medium or advanced as they require in some cases, more in-depth assessment and additional data. These assessments often align with forecasted climate models (from IPCC or other sources) and therefore may present higher level of uncertainty. Having said this, the FCA PS21/24 requests asset managers and life insurers to include "as far as reasonable practicable" for each TCFD product their climate value at risk and implied temperature rise.

Category	Example metrics
Physical Risks	**Medium:** Physical risk heat map under different scenarios **Advanced:** Anticipated future financial impacts based on results from scenario analysis (e.g., transition value at risk, or climate adjusted probability of default)
Transition Risks	**Medium:** Transition risk heat map under different scenarios **Advanced:** Anticipated future financial impacts based on results from scenario analysis (e.g., transition value at risk, or climate adjusted probability of default)
Financed emissions and portfolio alignment	**Advanced:** Portfolio alignment metrics (e.g., Implied temperature rise)
Financing the transition	**Medium:** Portfolio carbon return metric (based on avoided emissions) **Advanced:** Climate solutions investment ratio by capex

Appendix

Selected useful resources

General resources

1. ISSB: International Sustainability Standards Board (June 2023). IFRS S2 Climate-related Disclosures
2. TCFD: Taskforce on Climate-related Financial Disclosures (October 2021). Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures.
3. TCFD: Taskforce on Climate-related Financial Disclosures (October 2021). Guidance on Metrics, Targets and Transition Plans.
4. GFANZ: Glasgow Financial Alliance for Net Zero (2022). Financial Institution Net-zero Transition Plans: Fundamentals, Recommendations and Guidance.
5. TPT: Transition Plan Taskforce (November 2022). Publications; Summary Recommendations, Disclosure Framework, Implementation Guidance and Technical Annex.
6. BoE: Bank of England (April 2019). PRA SS3/19: Enhancing banks' and insurers' approaches to managing the financial risks form climate change.
7. European Insurance and Occupational Pensions Authority (EIOPA) (May 2022). Discussion paper on physical climate change risks.

Underwriting

1. European Insurance and Occupational Pensions Authority: Discussion paper on physical climate change risks.
2. CRFF: Scenario Analysis: Physical Risk Underwriting Guide
3. PCAF: Insurance-Associated Emissions – The global GHG Accounting and Reporting Standard – Part C.
4. Climate Financial Risk Forum(CFRF): CFRF Scenario Analysis Working Group: Climate Litigation Risk Chapter.
5. ClimateWise: Climate Tango: Principles for integrating physical and transition climate risk assessment with sectoral examples.

Investments

1. NZAOA: Target Setting Protocol, Third edition
2. NZAOA: Call to Action to Private Market Asset Managers
3. NZAOA: Position on the Oil and Gas Sector
4. NZAOA: Aligning Climate Policy Engagement with Net-Zero Commitments
5. IIGCC: Reported in Investor expectations of Corporate Transitions Plans: From A to Zero
6. IIGCC: Net Zero Investment Framework Implementation Guide
7. SBTi: Financial Sector Science-Based Targets Guidance
8. CFRF: Disclosure, Data and Metrics – CFRF Climate Disclosures Dashboard

Regulations

1. Regulatory requirements Bank of England Enhancing banks' and insurers' approaches to managing the financial risks from climate change – PS11/19
2. FCA – PS20/17: Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations.
3. FCA – Policy Statement PS21/23 Enhancing climate-related disclosures by standard listed companies.
4. FCA – Policy Statement PS21/24 Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers.
5. CSRD: Corporate Sustainability Reporting Directive
6. EU taxonomy
7. US SEC: The Enhancement and Standardization of Climate-Related Disclosures for Investors NAIC. Proposed redesigned
8. NAIC Climate Risk Disclosure Survey. https://content.naic.org/sites/default/files/inline-files/2022ProposedClimateRiskSurvey_0.pdf
9. Canada: OSFI. Climate Risk Management
10. New Zealand: Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 https://www.legislation.govt.nz/act/public/2021/0039/latest/LMS479633.html
11. Switzerland: Financial Market Supervisory Authority (FINMA) transparency obligations for climate risks
12. Australian Prudential Regulation Authority (APRA) Final Prudential Practice Guide CPG 229
13. Central Bank of Malaysia. TCFD Application Guide for Malaysian Financial Institutions Task Force on Climate-Related Financial Disclosures (TCFD)
14. Egypt: Financial Regulatory Authority Decrees No. 107 and 108 EGX-listed companies engaged in non-banking financial activities require new disclosure reports on sustainability practices and the financial impacts of climate change
15. Bank of Japan. Climate Change Initiatives: Disclosure Based on TCFD Recommendations
16. Bank of Thailand. Repositioning Thailand's Financial Sector for a Sustainable Digital Economy
17. Hong Kong Monetary Authority: Guidance climate disclosures.
18. Singapore Stock Exchange. Practice Note 7.6 Sustainability Reporting Guide | Rulebook (sgx.com)
19. Brazil: Securities Exchange Commission

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