

Association of British Insurers

ABI Climate Change Roadmap

In partnership with
Boston Consulting Group
Updated July 2023





The ABI Climate Change Roadmap has been developed by the Association of British Insurers, in partnership with Boston Consulting Group. In 2021, ten leading insurance and long-term savings companies, that between them have over £1.26trn invested assets, came together to write the Roadmap, supported by independent analysis from BCG. Since then, the ABI has been actively working to support the wider sector's adoption of these recommendations.

ABOUT THE ABI:

The Association of British Insurers is the voice of the UK's world-leading insurance and long-term savings industry. A productive and inclusive sector, our industry supports towns and cities across Britain in building back a balanced and innovative economy, employing over 350,000 individuals in high-skilled, lifelong careers, two-thirds of which are outside of London.

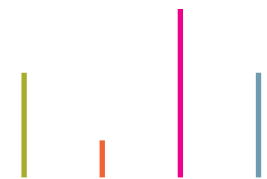
The UK insurance industry manages investments of over £1.6 trillion, pays nearly £17.2 billion in taxes to the Government and supports communities across the UK by enabling trade, risk-taking, investment and innovation. We are also a global success story, the largest in Europe and the fourth largest in the world. The ABI represents over 200 member companies, including most household names and specialist providers, giving peace of mind to customers across the UK.

The ABI Climate Change Roadmap was developed by a working group of representatives from the following firms: Phoenix, Aviva, M&G, Direct Line Group, Lloyds Banking Group, Royal London, BUPA, Pension Insurance Corporation, Rothesay, Zurich.

ABOUT BOSTON CONSULTING GROUP:

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we work closely with clients to embrace a transformational approach aimed at benefiting all stakeholders—empowering organizations to grow, build sustainable competitive advantage, and drive positive societal impact.

Our diverse, global teams bring deep industry and functional expertise and a range of perspectives that question the status quo and spark change. BCG delivers solutions through leading-edge management consulting, technology and design, and corporate and digital ventures. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, fueled by the goal of helping our clients thrive and enabling them to make the world a better place.



INTRODUCTION

The Role of the sector in addressing Climate Change

The UK's Insurance and long-term savings sector is the fourth largest in the world and the largest in Europe. We will play a crucial role in tackling Climate Change.

ABI members:

- Hold nearly **£1.6trillion** of invested assets across the globe and pay **£47m in Property and Motor Insurance claims** every day in the UK, making our sector crucial to the success of any strategy to finance the infrastructure and develop the nature-based solutions for Net Zero.
- **Promote resilience and risk management** for those impacted by the physical risks posed by Climate Change.
- **Interact with savers, customers and businesses** across the UK to manage the transition risks that come from adapting society to decarbonisation.

This gives our sector a central role in delivering the Government's Net Zero and Energy Security Strategy and helping deliver on the international commitments that were made at COP26 – as both financial investors and enablers.

Addressing Climate Change is fundamental to the future of our planet and will determine our future as a sector. Global temperature rises alongside the loss of natural habitats and biodiversity will result in systemic risks through extreme weather and disruption to our environment, causing a negative impact on physical and mental wellbeing, along with an increased risk of infectious diseases and pandemics.

Even within the 1.5°C scenario, there will be significant changes to the environment that will affect societal wellbeing and investment outcomes. Therefore, our sector's contribution to managing risk and adapting society to these changes is vital.

If action is not taken to keep temperature rises within 1.5°C, there could be a significant impact on the cost and availability of insurance and on the economic stability needed to give savers certainty for the long-term. Those most impacted by the negative effects of Climate Change will also be the most reliant on the services our sector provides, and therefore we must be at the centre of any effort to address Climate Change.

The need for action

While the Paris Agreement goals are long-term, the decisions required to meet them are not.

In his [foreword to the 2020 ClimateWise independent review of the insurance sector's progress on Climate Change](#), ClimateWise's then-patron King Charles III (previously known as HRH The Prince of Wales) stated that the progress identified was welcome and a reflection of action being taken across the industry. However, he also said:

"I fear that progress is far too slow and must be expedited to ensure that our economy is in harmony with Nature's own economy. Without this, the accumulating cost to our lives and prosperity will be too great to bear."

The ABI agrees with this assessment and recognises that our sector must do more to reduce carbon emissions, protect the natural and built environment and help society adapt to the impact of global temperature rises.

This Roadmap focusses primarily on our sector's role in supporting the delivery of the UK's Net Zero and Energy Security strategy and meeting its carbon budgets. However, our sector is the fourth largest in the world and plays a major role across the entire global economy. As investors and as underwriters, we operate internationally – therefore, to maximise the contribution of our sector, the UK Government must continue to build on the significant progress made whilst hosting COP26 to deliver consistency and collaboration across the global economy.

Four Thematic Pillars

1 MEETING NET ZERO BY 2050

- This Pillar focusses on the sector's **'financed emissions'** across its investment and underwriting portfolios – it underlines the importance of having a clear **2025 milestone, an interim 2030 target of 50% reductions** and reporting transparently as firms on their progress towards a **final 2050 Net Zero goal**.
- This Pillar sets out **best practice** on achieving this for 2025, 2030 and 2050 – and then explains how the ABI and its members will work with each of the key recognised external frameworks to achieve this.
- Given the key role of **responsible stewardship** in making progress on 'financed emissions', this Pillar also defines some high-level principles for what responsible stewardship and engagement looks like.

2 UNLEASHING INVESTMENT CAPACITY

- This Pillar explores the role the UK Insurance and Long-term Savings sector can play in meeting the c£2.7trn investment in infrastructure and energy transformation required to meet the UK's Net Zero targets (as set in the Carbon Budget) and the Paris Climate Change goals.
- An analysis conducted by Boston Consulting Group in 2021 has shown that through their investment capacity, **ABI members could support up to one-third of this investment (c£0.9trn)** from within the c£2trn of the sector's new business & reinvestment flows over 2021-35, equating to c£60bn of investment each year.
- **Unlocking the full investment capacity will require an ambitious approach from the Government**, including regulatory reform and action to tailor the structure of investment demand to meet the investment priorities of our sector.
- Working with Boston Consulting Group, ABI members have identified the main barriers that currently exist towards maximising these opportunities and this pillar then considers how these could be overcome through a range of potential levers where industry, government and regulators could collaborate.

3 SUSTAINABLE INDUSTRY OPERATIONS

- With 350,000 people employed across the UK sector, managing £47.2m in claim payments every day and responsible for £6.7bn in pension withdrawals each year, there is considerable scope to decarbonise the Insurance and Long-term Savings sector's day-to-day operations and in-turn drive change across the wide range of customers and businesses we work with.
- This Pillar sets out how the sector aims to **reach Net Zero in directly controlled operations by 2025**, including the carbon footprint of office operations, engagement with other local businesses, adapting to changing work patterns and utilising credible carbon offsetting mechanisms where needed.
- It also sets out how the ABI will facilitate co-operation between members to **ensure the supply chain is accounted for** within the 2030 target to reduce the sector's overall emissions by 50% and procurement, through supplier onboarding, sustainable sourcing, activity-based initiatives and a 'circular economy' approach to the use of products and services.

4 HELPING SOCIETY ADAPT

- As a sector that **contributes £30bn to the UK economy each year** and has multiple interactions and touchpoints with households and businesses across the UK, our sector can incentivise and support change well beyond the immediate scope of our own financed emissions and operations.
- This Pillar looks at how the sector can **facilitate sustainable decision making** through both innovation in our own offerings to customers and through collaborative work with our stakeholders.
- It identifies **five priority areas** where the ABI will work with its members to develop practical solutions that can help society adapt and ensure that our sector is contributing effectively to the economy-wide changes needed in response to Climate Change.

Evolving our Roadmap to reflect the full scope of environmental issues

The ABI and its members recognise that reducing carbon emissions is just one part of the action needed to protect our environment. The world will not reach its Net Zero targets without significant action to enhance biodiversity and rebuild natural ‘carbon sinks’ (natural resources that absorb and store carbon).

We will continue to review and update this Roadmap on an annual basis. Currently, our focus has been on the carbon emissions reduction targets that form a key part of the Paris Agreement. We recognise that, as the Roadmap develops, we will also need to give equal weight to the actions ABI members can take on other equally important causes of Climate Change (including on land-use, over-exploitation of natural resources, invasive species and pollution). All of these issues are inter-connected and inter-dependent.

In 2023, we have further evolved our work on environmental issues with the publication of a Guide to Action on Nature. We also continue to actively contribute to work on development of disclosure standards and taxonomies through membership of the City of London Corporation and the CityUK’s respective working groups.

Collaboration with the wider public policy landscape and economy

ABI members approach Climate Change and sustainability from a range of different perspectives –

- as companies seeking to reduce their own operational carbon footprints;
- as asset owners;
- as asset managers;
- as insurance underwriters;
- as risk managers and claims handlers

There are already a range of voluntary initiatives and regulatory obligations applying to these different areas, which we do not intend to replicate or replace. Instead, this Roadmap focusses on areas where the ABI’s diverse membership can collaborate to drive meaningful action.

It is right that we look beyond our immediate, ‘in-house’ activities and consider ‘financed’ emissions – i.e. emissions that come from other sectors

that have been enabled by financial services.

However, it is important to acknowledge that addressing the emissions linked to financial services is therefore a two-way process and contingent on the adaptations and mitigations being co-ordinated across multiple industrial sectors.

As these industries adapt, so too will their need for support from Insurance and Long-term Savings providers – with new investment to ensure firms with credible transition plans are able to move from ‘brown to green’ alongside new forms of insurance cover for new technologies and renewable energy sources. At the same time, many carbon intensive activities will require careful management as they are decommissioned or withdrawn from service. In many cases, they will still require insurance cover while this is happening, especially so as to ensure that employees and local residents can access compensation through public and employers’ liability insurance in the event of any accidents or negligence. Assessments of our sector’s carbon footprint will need to take account of our role in providing these essential services (rather than assuming that certain sectors could be excluded entirely).

Ultimately, a problem on the scale of Climate Change can only be tackled jointly between networks of sector peers acting in tandem with local and national policymakers, and civil society. Therefore, this Roadmap seeks to identify where ABI members are taking action and where further action is needed, but also where we will need to work collaboratively beyond our sector to achieve the change needed.

The role of Government and the need for policy certainty

Our sector cannot act alone and will be dependent on co-ordinated action and policy certainty across Government, regulators and other sectors, aligned with support for individuals and businesses to change behaviour.

This policy certainty is crucial, as an effective transition will require long-term investment in fewer liquid assets, which would mark a shift away from how our sector has traditionally navigated its duty to provide good and fair financial outcomes to customers.

Our sector wants to play a significant role in driving the transition, both as investors and as providers of essential insurance and long-term savings services. However, there are significant structural issues that need to be addressed to enable us to do so. The UK Government’s Net Zero and Energy Security Strategy has a crucial role to play in providing the long-term certainty our sector needs to invest and underwrite with confidence.

Why we have published this Roadmap

As a trade association, it is our role to facilitate collaboration and collective action across our sector, in order to improve outcomes for consumers.

Within the ABI's membership, we have some of the world leaders in driving the global Insurance and Long-term Savings sector towards Net Zero – and they have been instrumental in shaping this Roadmap.

As the sector works towards the 2025 milestones outlined in this Roadmap, the overall response to Climate Change remains inconsistent. We want to lift standards across the whole sector and facilitate collaboration across the ABI's membership and with our partners across the sector so that best practice is consistently applied. Working together as a sector provides the best chance of making the speediest possible impact at scale.

This Roadmap is intended to:

- Set out the commitments our sector is making to tackle Climate Change
- Confirm how we will make further progress and how we can measure its impact
- Allow ABI members to understand what good practice on Climate Change and environmental sustainability looks like
- Identify where collective action across the sector and collaboration with policymakers, regulators, other sectors and industry partners can drive further change
- Identify actions the UK Government and UK regulators can take to maximise the impact of industry action and enable us to do more while continuing to provide essential Insurance and Long-term Savings products that keep society financially resilient
- Allow scrutiny of our approach and enable the many stakeholders we work with to identify where we could make stronger commitments or take more action.

It is not the final word on the topic – the ABI will continue to review and refresh this Roadmap each year, to ensure it remains consistent with scientific evidence on greenhouse gases (GHGs), biodiversity and nature conservation and that it helps deliver the UK Government's Net Zero strategy and the international agreements made at COP26.

We are not complacent – while we are proud of the actions many ABI members have already taken and optimistic about our sector's capacity to drive further change, we acknowledge that the changes required to achieve the UK Government's target of reducing carbon emissions by 78% by 2035 will mean fundamentally re-thinking how we operate and serve customers. We will always recognise that Climate Change policy must be set in line with the most up-to-date scientific evidence. It must allow a 'Just Transition' that protects the whole of society from the impact of rising temperatures, while also managing the cost of transition in a way that ensures essential insurance products remain affordable and that savings provide for society's retirement needs.

As we take forward the priority actions in this Roadmap, the ABI will continue to identify areas where policy changes are needed and where improvements to legislation/regulation are needed.

PILLAR ONE

MEETING NET ZERO BY 2050

Setting transparent targets as part of the ‘Race To Zero’

The UK Insurance and Long-term Savings sector is **committed to reaching Net Zero by 2050** – in line with the Long-Term Global Goal (LTGG) agreed in Article 2.1 of the [Paris Agreement](#). As a sector, we are committed to halving our emissions by 2030, in line with the conclusions of the [IPCC's Mitigation report](#), published in April 2022.

To do this, individual firms will work with recognised external providers to agree precise targets and a suitable baseline figure against which their 2030 and 2050 Net Zero targets will be measured. The ABI will compile and collate evidence of progress across the sector, but we believe that recognised independent experts should be responsible for assessing whether or not the targets set are robust and what level of progress has been made.

This means action across the **full scope** of the industry’s operations, supply chain and ‘financed emissions’ across investment and underwriting portfolios to limit global warming to 1.5°C, applying to Scopes 1,2 and 3 of the international Greenhouse Gas (GHG) protocol¹, and support the transition of the whole economy.

Where good quality data is not available to fully assess emissions, the sector will work collaboratively with Government, regulators and our stakeholders to address this, and is committed to revising targets where necessary as better-quality information becomes available. We anticipate that the targets set by individual firms will generally be set on the basis of carbon intensity, rather than absolute emissions, as this is better able to reflect our members’ anticipated growth and acquisition strategies.

We accept the findings of the WWF and Greenpeace’s [report](#) on the scale of the UK financial sector’s ‘financed emissions’, which showed that our sector’s emissions are amongst the most significant of any sector in the economy. As our work to take forward our Roadmap continues, the sector is working with organisations such as the [Partnership for Carbon Accounting Financials \(PCAF\)](#) to develop a consistent methodology to measure these ‘financed emissions’. We are also committed to engaging with climate scientists and experts to ensure our approach is in line with the most up-to-date scientific understanding, for example, by responding to PCAF's recent consultation on [Insurance-Associated Emissions](#).

As a sector, we recognise that a long-term goal for 2050 is not enough – action needs to be taken now and then followed through with **regular milestones every five years**.

The ABI Board – made up of CEOs from leading firms across the sector – is clear that their role is not just to set targets for the next generation of industry leaders to meet, but to drive progress during their tenures.

ABI Board Members have been personally involved in shaping this Roadmap at every stage of its development, which involved a series of in-depth meetings of the ABI’s Board sub-group on climate change as well as regular discussions at ABI Board meetings.

The following table shows what best practice is – the ABI Board is committed to these targets and the ABI is now working across our membership to embed this best practice across the sector. Each year, our annual updates to this Roadmap will continue to include progress updates against these milestones.



By 2025, best practice on Climate Change means that firms will have:

- Worked collaboratively with recognised external frameworks to set a target to show how each individual firm plans to reach Net Zero by 2050 (in line with the Paris Agreement and the global GHG accounting standard).
- Subjected those targets to independent scrutiny to ensure targets evolve in line with advances in scientific evidence and progress can be monitored at least every five years.
- Articulated a transition plan to achieve targets through responsible stewardship practices (as applicable as either underwriters, asset owners and/or managers) with a focus on ensuring a 'Just Transition'.
- Reported transparently on progress towards the first five year milestone (subject to availability of data on specific asset classes and sectors), using the TCFD principles. This should be a key feature of a company's Annual Report and accessible on its website.
- Reached Net Zero within its own directly controlled operations (typically Scope 1 and 2 emissions)
- As part of the transition planning, identified and communicated any areas where additional policy decisions from Government, regulators or other parts of the economy will be required to reach the target.
- Educated consumers through consistent information on how default product options support the transition of the whole economy and on the options available for consumers who want to reduce their own carbon footprint.

By 2030, best practice on Climate Change means that firms will have:

- Reached the IPCC's interim 2030 goal of a 50% reduction in emissions (from a baseline set as part of the targets firms have agreed with recognised external frameworks and calculated to reflect a 'fair share' for our sector of the overall 50% reduction needed across the global economy by 2030).
- Engaged proactively with its suppliers to ensure supply chain emissions are included within the scope of the firm's overall emissions reduction target (a 50% reduction by 2030) and embedded a set of consistent principles across its procurement and supply chain.
- Updated its Net Zero targets to ensure they remain aligned with the most recent scientific evidence and best practice identified by recognised external frameworks.
- Reported transparently on any new risks to meeting the 2050 goals and on further actions required from Government, regulators and other key stakeholders.

By 2050, best practice on Climate Change means that firms will have:

- Fully decarbonised their activities – in line with the UNFCCC's Paris Agreement – to ensure they are not contributing to an increase in global temperatures above 1.5°C.
- Taken action as soon as possible – where innovation and policy decisions allow firms to act to decarbonise before the final 2050 deadline, they should do so.

THE ABI BOARD IS COMMITTED TO THESE TARGETS AND THE ABI IS WORKING ACROSS OUR MEMBERSHIP TO EMBED THIS BEST PRACTICE ACROSS THE SECTOR.

OUR ANNUAL UPDATES TO THIS ROADMAP PROVIDE PROGRESS UPDATES AGAINST THESE MILESTONES.

How the ABI and its members will demonstrate progress as a sector – recognised external frameworks and expertise

The ABI is an official 'Accelerator' of the UN-backed [Race to Zero campaign](#).

We believe that ABI members should demonstrate their commitment to reaching Net Zero goals by

- signing up to initiatives that have been approved by the United Nations as part of 'Race To Zero'; and
- supporting more recently launched initiatives aimed at extending the 'Race To Zero' campaign more broadly across our sector, so that every aspect of the services our sector provides is covered.

We are committed to helping our members sign up to applicable 'Race To Zero' accredited organisations. A significant number of ABI members have already made Race To Zero commitments and we continue to encourage further members to join the campaign.

The ABI is committed to supporting more of our members to become part of the 'Race To Zero' campaign.

There are a range of established initiatives directly relevant to the Insurance and Long-term Savings sector that are already accredited Race To Zero Partners:

- [Paris Aligned Investment Initiative](#)
- [UN-Convened Net-Zero Asset Owner Alliance](#)
- [Net-Zero Asset Managers Initiative](#)

These initiatives will play a key role in co-ordinating action across the sector and amplifying the effect that action by individual firms can have. Our sector's membership of these networks will not be passive, and the ABI will work with these networks to provide evidence and insight from our members.

As it currently stands, the future of the [Net Zero Insurance Alliance](#) - which aimed to create standards for insurance underwriting - is uncertain. While the ABI was not directly involved in this global initiative, we will aim to ensure there are credible methods for insurers to align their approach to underwriting

Aligning targets with our duties to customers and savers

A key focus for the ABI in our engagement with the Race To Zero networks and other Climate Change experts will be working to ensure effective alignment between Climate Change metrics and the duties that ABI members have to policyholders and scheme members, which require them to deliver good and fair financial outcomes. The processes for measuring these outcomes are generally well defined. They are vital to ensuring a financially resilient society and cannot be compromised.

This Roadmap focusses on the industry's duty to ensure a habitable planet. It will not be possible for ABI members to deliver good and fair outcomes without also delivering this sustainability outcome. However, currently, the measurements for sustainability outcomes are less clearly defined and tend to be measured over a longer time period. Addressing this and ensuring that sustainability metrics can operate alongside other duties to customers and savers will be vital to the success of the strategies outlined in this Roadmap. Therefore, we welcome the UK Government's intention to consider the role of fiduciary duties within its wider Green Finance Strategy.

ABI Engagement with the Science Based Targets initiative (SBTi)

The [Science Based Targets initiative \(SBTi\)](#) is a voluntary initiative that provides methodologies, guidance and support for firms setting science-based targets. This organisation supports individual businesses to set targets and aims to provide consistency across the economy, which will be crucial for transparency and financial reporting.

The SBTi launched specific [sector guidance for financial institutions in 2020](#). A number of ABI members have already worked with the SBTi to set targets using this guidance and have already been approved as having set a target consistent with a 1.5°C scenario, allowing them to be part of the '[Business Ambition for 1.5°C](#)' business leaders.

Although we recognise that the SBTi continues to develop and refine its guidance, it remains the assessment of the ABI and its members that the current methodology does not fully reflect the role of the UK's pension sector – where pension providers have regulatory and contractual obligations to a range of customers with unique needs, and must work in partnership with employers, trustees, asset managers and financial advisers to ensure policyholders and members have adequate savings for their retirement. A key priority for the ABI and its members will be to work with the SBTi (and other frameworks and experts) to develop methodology that pension providers are able to use.

It continues to be a priority for the ABI, as we take forward the work as a sector on this Roadmap, to establish consistent methodological approaches that all of our members are able to use.

The role of recognised frameworks for setting targets

Carbon reduction targets should be consistent with the scientific understanding of the amount of additional carbon that can be emitted into the atmosphere without raising global temperatures above certain thresholds.

- The ABI believes that all Insurance and Long-term Savings firms will need to set targets that are consistent with a 1.5°C scenario.
- The ABI will work with our members to develop processes to quantify the sector's emissions and ensure that the targets set constitute a 'fair share' of the global emissions reductions required to keep temperature rises to within this 1.5°C scenario.

These targets will reflect the specific lines of business of individual firms and will need to be updated as policy decisions are taken and as Governments specify their revised country pathways to Net Zero in advance of COP27. For that reason, rather than setting internal targets, firms should use methodologies set by recognised external organisations and ensure these can be scrutinised openly.

To meet these targets, firms will be dependent on policy certainty from Governments. The more clarity there is on the precise details of national and international transition strategies, the more scope there is for businesses to set precise targets that align with the overarching Paris Agreement.

There are a range of different external frameworks businesses can use to set targets aligned to the Paris Agreement - and we expect their methodology to continue to evolve so that it reflects the specific activities of different economic sectors. In particular, a focus for the ABI and its members will be to engage constructively with the Science Based Targets initiative (SBTi) to develop a methodology that the whole the of UK's Insurance and Long-Term Savings Sector is able to use.

For Insurance and Long-term Savings providers, the role of these frameworks will be a circular process. ABI members will be relying on these frameworks to make assessments of counterparties, clients and contractual partners. In turn, we recognise that the same frameworks will increasingly be used by those investing into and procuring from ABI members to make their own assessments.

Responsible Stewardship and Engagement

Through responsible stewardship (the process by which asset owners and managers engage with companies in which they invest), ABI members have a key role to play in driving businesses across the economy to adopt GHG emission reduction targets, take action to reduce emissions in a way that is consistent with a 'Just Transition' and adapt to Climate Change.

There are two key initiatives that represent best practice for investors applying responsible stewardship principles:

- Firms who join the Net-Zero Asset Owner Alliance and the Net Zero Asset Managers Initiative are obliged to show they are committed to the UN's six [Principles for Responsible Investment](#).
- For the UK sector, the Financial Reporting Council's [UK Stewardship Code 2020](#) is a voluntary initiative that sets high standards for those investing money on behalf of savers, to ensure that there is responsible allocation, management and oversight of capital that allows for long-term, sustainable value for clients and beneficiaries.

To date, development of principles and policy for stewardship and engagement has typically focussed on the role of investors – as we take forward this Roadmap, a key role for the ABI is to ensure the lessons learned for investors are also applied to other activities covered in this Roadmap, such as underwriting (including through our membership of the UN PSI and the industry's involvement in the Net Zero Insurance Alliance) and procurement (covered in Pillar 3 of this Roadmap).

ABI members perform a range of functions, each with its own obligations and perspectives.

Asset owners and asset managers have different regulatory and legal duties, and have specific obligations depending on the financial needs of savers and the objectives of employers and trustees, which will shape their investment strategy. Where firms have multiple roles, the duties to different customers within different parts of their group will vary – meaning the way they exercise responsible stewardship may vary accordingly.

Fundamentally, every provider's long-term obligations will mean ensuring scheme members are not unduly exposed to climate risks through their investments. But their immediate obligation is to ensure good retirement outcomes for savers and to ensure contractual obligations to policyholders are delivered.

Therefore, collaborative action – through initiatives such as [Climate Action 100+](#) and the [Institutional Investors Group on Climate Change \(IIGCC\)](#) is the most effective means to exercise responsible stewardship, ensuring that there is a consistent voice from investors that compels businesses to act.

There is already extensive evidence to show that action from investors has persuaded businesses to adopt targets and make more ambitious action on Climate Change a business priority.

While Governments across the globe develop the policy frameworks that will allow them to meet their Paris obligations, responsible stewardship through collaboration between asset owners and asset managers is a vital part of providing the incentives and support needed for businesses to adapt and invest in the transition.

Therefore, the ABI believes that the distinction sometimes drawn between stewardship and divestment is artificial, given the crucial role our sector will play in supporting businesses to make the transition. In the short term, divestment may help individual investors meet specific reporting targets, but – given the wide availability of alternate sources of investment for these high-emitting sectors – it is less likely to result in any immediate real-world reductions in emissions than supporting businesses to make meaningful transition investments. With the UK's transition plan, as set out in the Climate Change Committee's [Sixth Carbon Budget](#), it is envisaged that investment in many of the most significant 'hard to abate' sectors will need to increase between 2036 and 2050 to meet the 2050 Net Zero goal. Therefore, Climate Change targets that envisage aligning investment and underwriting portfolios entirely away from these sectors may have the unintended consequence of limiting the investment in innovation needed to reach Net Zero.

Instead, we believe that applying the following key principles will maximise the impact of stewardship and allow investors to then make informed decisions on when divestment is appropriate:

- Reporting transparently on how each firm via the mechanisms established through the UN Principles for Responsible Investment and by the UK Stewardship Code
- Embedding stewardship considerations throughout the business so that they become a factor in decision making across the different roles of asset owners and asset managers
- Consider the interests of all stakeholders and take pro-active steps to understand the needs, preferences and ethical priorities of savers
- Ensure that the standards applied to the companies that firms invest in match the standards that firms are striving for across their own business operations
- Review the approach to sustainability regularly in order to align with scientific and technological improvements, and changes in the global economy.

Reporting, Transparency and the key role of Data

The ABI is a formal supporter of the [Task Force on Climate-related Financial Disclosures \(TCFD\)](#) principles and welcomes the UK Government's world-leading commitment to making these mandatory across the economy by 2025.

As investors and underwriters, our sector will depend on consistent and complete data to inform decision making. As well as driving uptake of TCFD principles and developing the equally important [Taskforce on Nature-related Disclosures \(TNFD\)](#) principles, the independent [Green Technical Advisory Group](#) is playing a crucial role in driving greater consistency and comparability in the datasets used for reporting. The ABI is supporting this work as a member of the TFND Forum and is actively engaging with the GTAG through membership of the City of London's IRSG.

Providing updates on a regular-basis and in 'bite-sized chunks' will be critical – the fundamental principle should be that CEOs and senior executives need to show that they are taking meaningful action within their current tenure, positioning their companies to reach the longer-term targets and ensuring that Climate Change is embedded as a key driver of company

strategy and decision making.

All firms should ensure that progress on climate risk is included in annual reports, on the agenda at AGMs whenever relevant and that information and updates are publicly accessible on company websites.

Working in partnership with regulators to reach Net Zero

The UK Insurance and Long-term Savings sector is one of the most highly-regulated sectors in the economy, as stewards of retirement savings and providers of vital insurance protection for individuals and businesses.

So, while many of the UN-level initiatives designed to help businesses set science-based targets and commit to taking action are voluntary, ABI members will be obliged by regulators to demonstrate that they are making progress in understanding and addressing both the physical and transition risks of Climate Change.

Much of the progress on Climate Change that has allowed a significant number of ABI members to join the 'Race To Zero' has been delivered through productive partnership working with the UK regulators – the PRA, the FCA and The Pensions Regulator.

There are a number of significant regulatory initiatives currently underway that will assess the effectiveness of the industry's preparations for adapting to and mitigating Climate Change, including:

- **Implementation of TCFD principles** – It is vital that different regulators do more to ensure the implementation of TCFD principles is consistent across different regulatory regimes both nationally and internationally (especially as ABI members will often be obliged to produce TCFD reporting for more than one regulator) – as inconsistency will undermine the role that TCFD can play in driving consistent decision making on climate issues.
- **Managing the financial risks from Climate Change** – in April 2019, [the PRA set out its expectations](#) on how banks and insurers should manage the financial risks associated with Climate Change. Firms were required to have adopted these requirements and fully embedded their climate risk management strategies by the end of 2021. We are committed to ensuring the findings from the Bank of England's 2021/22 Climate Biennial Exploratory Scenario and the issues raised in its recent work on Climate and Capital are fully incorporated into the industry's strategic approach to climate risk.

- **Climate Financial Risk Forum** – recognising the need to advance the financial services industry’s capabilities on managing climate-related risks, the PRA and FCA jointly convened the Climate Financial Risk Forum (CFRF). Whilst this is regulatory convened, the forum is very much led by industry for industry – including the ABI and a number of members – to advance capabilities across risk management, scenario analysis, disclosures and innovation.

The ABI has been playing an active role, working directly with regulators and through regular member working group meetings and organising industry roundtables, to ensure these initiatives are effective.

The ABI and members have recognised the need to advance capabilities in this still emerging area of climate risk management and have enhanced their own internal expertise on climate risk, including through employing specialist experts and have proactively leaned into these discussions rather than letting the ‘perfect be the enemy of the good’ or waiting to be led by regulators.

As firms produce TCFD reports, Transition Plans, and respond to regulatory initiatives, we are committed to reviewing the ABI’s industry Roadmap accordingly and to continue to work in partnership to ensure that the industry’s commitment to reaching Net Zero is reflected in its approach to financial reporting, transparency and managing financial risk.

Furthermore, with many ABI members being leading global firms, operating across multiple jurisdictions, it will be vital that regulators focus on international consistency and comparability. A number of emerging international initiatives will have impacts on the insurance industry - for instance the UK Government's proposed Green Taxonomy will play a key role in driving consistency in this area.

Support for other recognised frameworks aimed at reaching Net Zero

As is outlined throughout this Roadmap, the role of Insurance and Long-Term Savings in addressing Climate Change goes well beyond the provision of finance and savings. As investors, savings providers, risk managers and claims handlers, our sector has a unique interest in how businesses and individuals across the whole of society mitigate and adapt to Climate Change. Because of this, ABI members have signed up to a wide range of cross-sectoral frameworks, aimed at co-ordinating action to reduce emissions and decarbonise different sectors of the economy, in addition to those aimed directly at financial services.

These range from the [RE100](#), [EV100](#) and [EP100](#) initiatives (aimed at promoting renewable energy, electric vehicles and energy efficiency) to sector-specific initiatives, such as the [Sustainability Reporting Standard for Social Housing](#) and the [Better Buildings Partnership Climate Change Commitment](#).

In addition, we recognise that certain key utilities (such as energy and transport) that have a high emissions footprint will require additional co-ordinated action, in collaboration with Governments. For example, several ABI members are members of the [Powering Past Coal Alliance \(PPCA\)](#), which allows Governments to collaborate directly with businesses to transition away from unabated coal generation.

Our assessment of the sector’s role in enabling and promoting change across the wider economy is contained in Pillar Four of this Roadmap – the ABI is committed to working in partnership with other sectors and our counterpart trade bodies to take collective action and ensure Insurance and Long-term Savings supports the unprecedented level of change that will be needed across the whole of the economy.

ABI Support for the ClimateWise initiative

The ABI played a key role in establishing and was a founding member of the [ClimateWise](#) initiative. Managed by the Cambridge Institute for Sustainability Leadership (CISL), ClimateWise’s membership includes a number of ABI members alongside brokers, suppliers and support service providers.

ClimateWise plays a key role in helping insurance providers take action on Climate Change, by convening industry leaders and undertaking research. It also sets and regularly updates a set of principles for best practice – and requires all of its members to publish an annual progress report, which is then subjected to independent evaluation. ClimateWise currently has an active process for designing a suitable definition for ‘Net Zero Underwriting’, on which the ABI is playing an active role.

The ABI’s own submissions to ClimateWise are all publicly available [here](#). We remain committed to ClimateWise membership and our next submission will allow the approach we have adopted through this Roadmap to be subject to independent scrutiny.

PILLAR TWO

UNLEASHING INVESTMENT CAPACITY

Our role investing to support the UK's Net Zero strategy

In addition to ensuring the sector's 'financed emissions' are aligned with Net Zero goals (covered in Pillar One), the industry has a key role in providing the scaled investment capacity that will be needed to phase out carbon-intensive activities and replace them with sustainable and renewable innovations.

As the fourth largest Insurance and Long-term Savings sector in the world, the ABI's membership will play a key role in the global transition to Net Zero. ABI members have globally diverse asset books and provide underwriting capacity across the global economy.

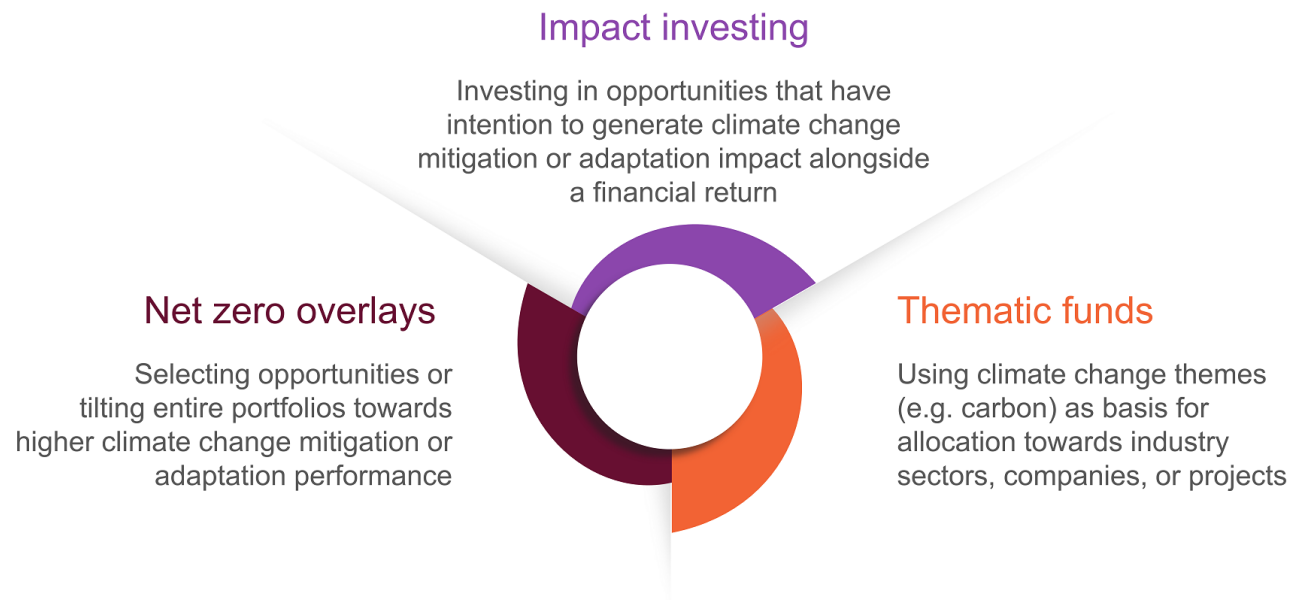
In its [sixth Carbon Budget](#), the Climate Change Committee set out a 'Balanced Net Zero Pathway' for the UK to meet its contribution to the global emission reduction targets. The UK Government is now driving the implementation of this through its Net Zero strategy and its Energy Security Strategy.

This will require a complete infrastructure and energy transformation. ABI members have the potential to play a leading role in powering this transformation.

There is an opportunity for the UK to ensure not just that our sector is aligned to Net Zero, but for the principles set out in Pillar One to be adopted in a way that can establish the UK as a genuine world-leader in driving the climate transition.

Public-private partnerships will be vital for this and will require support across the political sector to succeed. This would be a 'win-win' for both sides, as unleashing our sector's investment capacity will then fund the insurance payouts and savings payments on which the long-term financial resilience of the UK depends.

Our sector will need to embed sustainability into its core investment practices through a range of mechanisms – including Impact Investing, Net Zero overlays and Thematic Funds.



Our role as international investors

The analysis that underpins Pillar Two of this Roadmap focusses on the UK Government's carbon budget Zero Strategy and the investment that will be required in the domestic market of the ABI's membership. There are a number of areas where the UK has the potential to be a world leader and where investment from ABI members can achieve this, and in turn, ensure the potential of this investment is maximised to address the global impact of Climate Change.

Our sector also has a crucial role to play within emerging markets to provide long-term capital that will help the transition of their economies to Net Zero.

Many of the approaches outlined in this part of the Roadmap can, in turn, apply to international markets. However, in order to maximise the global contribution of our sector, some key structural barriers will need to be addressed – in particular, ensuring consistent corporate governance standards so that ABI members can invest with confidence.

Collaboration through multi-lateral institutions such as the World Bank and the International Finance Corporation (IFC) will be key to maximising the potential in this area. We encourage the UK Government to play a leading role in driving this forward and ensuring that the UK remains a world leader in financing the climate transition.

We also intend to collaborate on cross-sector initiatives in this area (for example, the World Economic Forum's work on de-risking investment).

Assuming similar actions are taken in other international markets as we propose in this Roadmap for the UK, Boston Consulting Group's analysis estimates that ABI members could support an additional £0.3trn in investment opportunities outside the UK.

Maximising our sector's impact

To set out how the UK can maximise this opportunity, the ABI worked with Boston Consulting Group in 2021 to explore the UK's investment needs, as set out in the Carbon Budget's 'Balanced Net Zero Pathway' and to then identify the asset pools with the highest potential, the types of transition opportunities potentially of interest to ABI members and what is required to unlock these investments.

To support this analysis, Boston Consulting Group conducted a detailed analysis of industry data and a series of in-depth interviews with ABI members. This analysis focussed on the potential allocation of the industry's assets to future transition projects.

This analysis reached three main conclusions:

- c£2.7trn of investment is needed over 2021-35 to hit the UK government's Net Zero target (which assumes a 78% reduction in carbon emissions against the 1990 baseline by 2035)
- ABI member investment capacity could support up to one-third of this investment (c£0.9trn) from the c£2trn of our sector's new business and reinvestment flows – equivalent to c£60bn each year
- Unlocking the full investment capacity requires an increase in the supply of opportunities, reductions in complexity of the investment process and improvements to the financial attractiveness of these opportunities.

Note: This analysis did not consider in detail the broader question of investment in climate resilience (as this is not within the scope of the Carbon Budget) or any further investments required to deliver emissions reductions in the industry's operations and supply chain (covered in Pillar Three) or its role supporting society to make more sustainable choices (covered in Pillar Four).

How the c£2.7trn of investment will help meet the UK's Net Zero targets

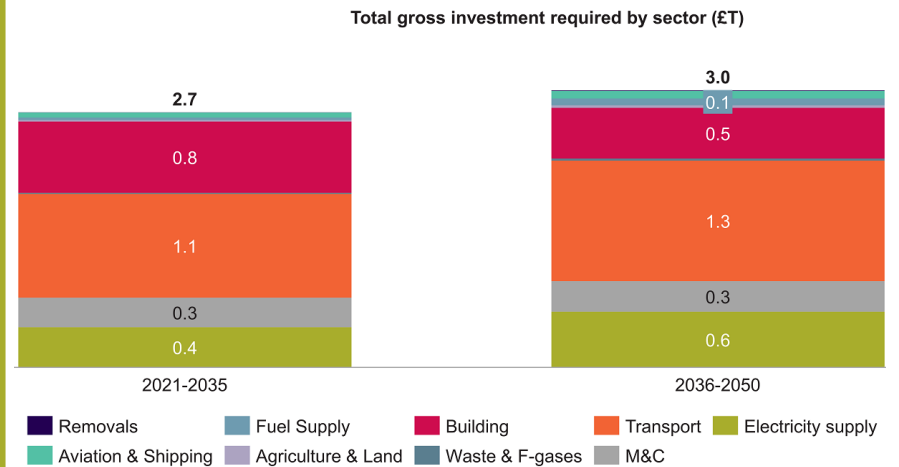
The UK government has committed to a 'Balanced Net Zero Pathway' that requires it to reduce emissions 78% versus 1990 levels by 2035. The UK's Sixth Carbon Budget estimates that c£2.7trn of investment will be needed to deliver this Balanced Net Zero Pathway over 2021-2035 (equating to c£180bn each year.)

Further investment will then be needed between 2036 and 2050 – where we anticipate our sector, with its appetite for long-term investments and ability to deploy 'patient capital' will continue to play a major role.

These transition investments encompass a wide range of opportunities from early-stage start-up to large-scale infrastructure build to consumption, including

- c£0.3trn for commercially unproven innovative technology that will predominantly require a mix of short-term equity, bond, and loan financing
- c£1.5trn for infrastructure build projects across Electricity, Transportation, and Manufacturing that will be mainly long-dated, illiquid bond financing
- c£0.9trn for consumption and requires mainly equity and loan financing

Transition investments are needed across all UK sectors and well beyond 2035



Large pool of investable assets

Insurers are amongst the largest institutional investors in the world with access to large pools of assets. In the UK, ABI members have ~£1.6T of invested assets that they allocate across a range of asset classes



Insurers are long-term investors

Insurers have long-term liabilities which they need to match with assets with a long duration. As insurer liabilities tend to be locked-in, there is also limited downside risk to insurers from illiquidity



Insurers are looking for yield

Insurers typically invest a substantial portion of their portfolios in fixed-income assets. However, given low-yields currently, these investments are generating minimal returns. Alternative asset sources can help insurers top-up their low yields



Insurers can help influence behavior

Insurers can help influence companies they invest in through activist governance and nudge customers to make greener choices

Focus of Pillar 3 & 4

ABI members are well positioned to provide transition finance

The asset pools ABI members could invest in:

There are three key stages which present investment opportunities within the Transition to Net Zero – **Innovate, Build and Consume**.

Within different sectors, there are likely to be investment opportunities at each of these stages.

£2.7trn of investment needed in UK transition 2021-35, with clear opportunities for ABI members

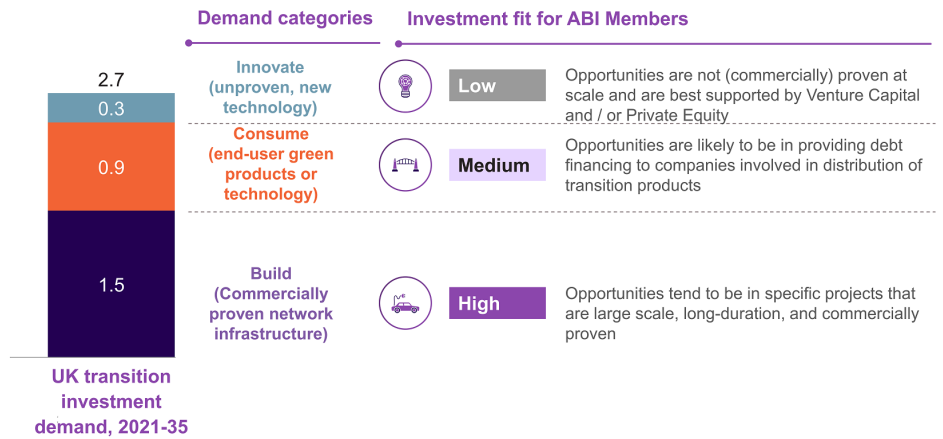
This table sets out where the opportunities are likely to 'fit' with our sector's investment appetites and priorities. However, there is an opportunity for the Government to take action to better align each of these investment stages with our sector's investment appetites.

ABI member investment capacity could support up to one-third of this investment

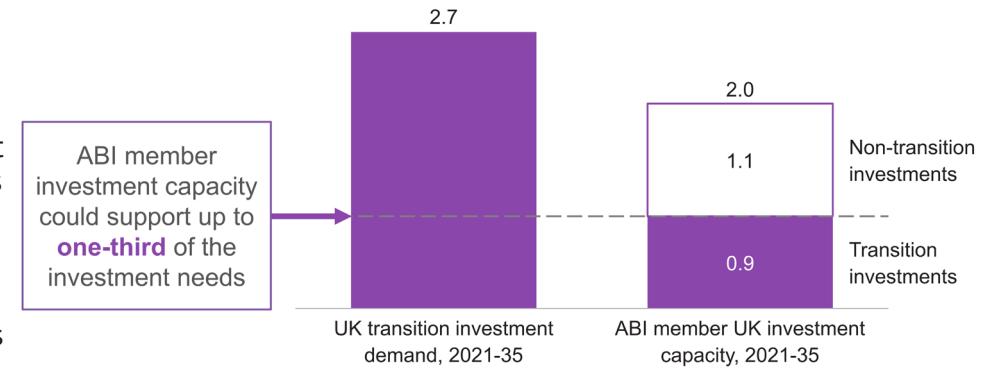
A detailed analysis conducted by Boston Consulting Group of current investment stocks and anticipated future investment flows has concluded that ABI members could **provide one third (c£0.9trn) of the total investment capacity required in the UK Government's Net Zero strategy**.

- Between 2021 and 2035, ABI members will invest c£2trn in UK assets through a combination of new business (c£0.9trn) and reinvestment of existing stocks (c£1.1trn).
- If the constraints on this investment capacity (identified in this Roadmap) were to be fully addressed, we estimate ABI member investment capacity could support up to c£0.9trn in UK transition opportunities over 2021-35 (equating to c£60bn per annum) - representing one-third of the total demand.
- ABI members are global investors. Part of the challenge for the UK Government will be to take a pro-active approach and ensure the UK remains an attractive place for investment. However, even in a scenario where the UK Government takes action to maximise the full potential of ABI members' investments here in the UK, there will still be scope for considerable international investment – should similar actions to unlock investment be taken internationally as we propose for the UK, we estimate that an additional £0.3trn would be available for investment from ABI members into international transition opportunities.

Total 2021-2035 (£T)

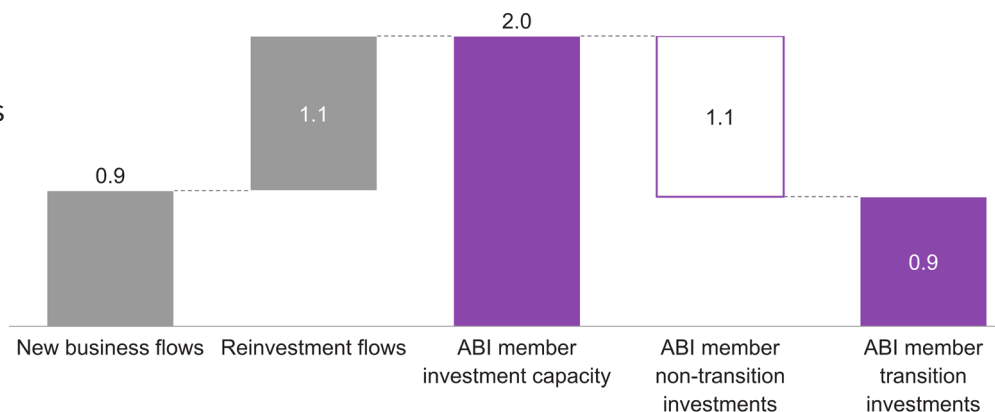


2021-2035 (£T)



ABI members have c£2trn investment capacity 2021-35 with potential for up to c£0.9trn to go to UK transition

ABI member UK investment flows, 2021-2035 (£T)



Net Zero transition opportunities will require different forms of financing.

For ABI members, the strongest opportunities are likely to come through corporate debt and property – unless policy levers can be established to make equity asset classes a better fit.

Asset Class	Total investable, 2021-2035 (£T)	Proportion in UK transition assets, %	Potential in UK transition assets, 2021-2035 (£T)	Investments categorised as transition assets	Rationale for proportion in UK transition assets
UK Gilts	0.4	10-20%	<0.1	<ul style="list-style-type: none"> Green gilts 	<ul style="list-style-type: none"> Assume 10-20% as the green gilt market is expected to grow rapidly (~2% of UK borrowing in 2021, global market growing ~50% p.a.)
Corporate Debt	0.6	40-50%	~0.3	<ul style="list-style-type: none"> Private debt funding transition projects Green corporate bonds 	<ul style="list-style-type: none"> Assume 50-60% overall based on different levels for private (40%) and public debt (60%): <ul style="list-style-type: none"> 80-90% in private markets as this is where the bulk of transition investment is expected (e.g. long-term infrastructure debt) 10-20% in corporate green bonds (in line with green gilts)
Equity	0.2	10-20%	<0.1	<ul style="list-style-type: none"> Green equities (FTSE Russell classification) 	<ul style="list-style-type: none"> Assume 10-20% as global green economy is currently ~5% of the total listed equity market, and expected to grow to ~10% by 2030
Unit Trusts	0.4	25-35%	~0.1	<ul style="list-style-type: none"> Categorised based on underlying assets 	<ul style="list-style-type: none"> Assume 25-35% based on the transition assumptions of the underlying assets based on typical holdings of: <ul style="list-style-type: none"> 40% equity, 30% Corporate debt, 20% Gilts, 10% Property
Property	0.3	80-90%	0.2-0.3	<ul style="list-style-type: none"> Properties meeting net zero standards 	<ul style="list-style-type: none"> Assume 80-90% as by 2025 all new buildings must be designed in a way that enables them to operate at Net Zero by 2030
Total	2.0		0.7-0.9		

Note: Equity includes direct holding of stocks and shares, unit trust includes holdings of assets via funds

Source: ABI; Investment Association; ABI member interviews; Company filings; FTES; BCG

Unlocking the full investment capacity requires an increase in the supply of opportunities, reductions in complexity of the investment process and improvements to the financial attractiveness

The UK's Insurance and Long-term Savings sector wants to play a leading role in financing the transition to Net Zero.

Despite the Insurance and Long-term Savings sector being well-positioned to invest for the long-term and having capacity to deliver a significant proportion of the required Net Zero investment, barriers exist to fully deployment of ABI members' investment capacity. Action will be required to address these constraints.

As interest rates begin to rise, the current market environment that makes investments in large-scale infrastructure projects attractive for insurers will not persist indefinitely. The Government has an opportunity to act now to ensure as much of the Insurance and Long-term Savings sector's investment potential as possible is deployed.

ABI members face three broad categories of constraint on Net Zero investment:

- Lack of supply of net zero transition opportunities to invest in
- Complexity of the investment process
- Financial attractiveness of investing in net zero transition opportunities

Unlocking these constraints will require action by regulators, the UK government, and international standard setting agencies. Working with ABI members, we have outlined an initial list of potential unlocks for the constraints:

	Key constraints	Key unlocks	UK Gov.	Regulator
1	Supply of net zero transition opportunities to invest in	1.1 Implement policy (e.g. review planning and permits, subsidy regime for high potential technology) to incentive and accelerate UK transition projects	✓	
		1.2 Expand issuance of green gilts (including green municipals)	✓	
2	Complexity of the investment process	2.1 Loosen liquidity requirements on unit linked funds to enable more investment from DC pensions in transition funds (e.g. Long-term asset fund)		✓
		2.2 Launch investment hub to aggregate, securitise, and distribute financing to transition infrastructure SMEs	✓	
		2.3 Define standards for classifications of green investments across asset classes, and set disclosure requirements to support transparency and preventing "greenwashing"	✓	
3	Financial attractiveness of investing in net zero transition opportunities	3.1 Reform the matching adjustment (e.g. widen eligibility, move to principle-based approach)		✓
		3.2 Include controlled pricing bands for a short time period to secure minimum cash flow stream from select transition build that are of high strategic importance	✓	
		3.3 Underwrite credit risk with government guarantees or backstops	✓	
		3.4 Tailor investments opportunities to matching adjustment (e.g. guarantees, early repayment terms)	✓	

Translating our sector's potential into real-world investment

A key factor for ABI members is that the prudential regulation regime under which ABI members operate, places significant restrictions on how capital is allocated, by being extremely prudent. ABI members are required to hold both (i) assets to match their future liabilities and (ii) substantial risk capital (>£200bn) over and above that, to ensure they can absorb losses that may occur if these risks were to crystallize in an extreme (1 in 200 year) event.

The risk aversion of the regime is also reflected in significant restrictions on the types of assets insurers can invest in which, in turn, reduces the scope ABI members would like to have to invest in transition opportunities (which typically are classed as being within more risky asset classes). Currently, ABI members invest a significant portion of their portfolios in fixed-income assets.

The Government has confirmed that the regime will be reformed, with a new Solvency UK regime created to replace the EU Solvency II regime. According to [KPMG analysis](#) commissioned by the ABI in 2021, measures proposed by the ABI for the operation of the new regime, which aim to widen the current Matching Adjustment asset eligibility, could unlock c£60bn (20%) of the total funds already held in Matching Adjustment portfolios (c£300bn) to be re-invested in productive long-term assets to help with economic recovery and the green transition. This £60bn would stay invested but could be refocused on assets that help the UK meet Net Zero commitments.

However, there is scope for the Government and the PRA to go beyond these specific reforms and ensure that the innovation and investment supported by the recently launched UK Infrastructure Bank is reflected in the principles that underpin the PRA's regulatory regime and, in particular, its approach to the Matching Adjustment.

The ABI and its members are committed to working closely with Government to unleash our investment potential, to both finance the Net Zero strategy and to deliver economic growth and make the UK a world-leader in transition infrastructure.

The ABI and its members remain committed to working closely with the Government to ensure the new Solvency UK regime is effective.

We acknowledge that the proposed unlocks outlined in this Roadmap require detailed impact assessment and analysis. The ABI is actively working with members to identify effective mechanisms to unlock this investment.

In taking forward work to unlock our sector's investment capacity, the ABI will focus on the following areas:

- Working with Government, regulators and stakeholders to understand which investment levers and potential unlocks show most promise and how these can be kickstarted
- Allowing ABI members to both ensure climate resilience is factored into the infrastructure projects they invest in and to measure the size and impact of their Net Zero transition investments
- Establishing what standard UK net zero transition investment data needs to be collected and shared.

PILLAR THREE

SUSTAINABLE INDUSTRY OPERATIONS

Directly Controlled Operations

The Insurance and Long-Term Savings sector aims to reach Net Zero within its own directly controlled operations (typically Scope 1 and 2 emissions) by 2025.

Given the wide range of different operating models across the sector, firms will do this by assessing their own operational footprint and then using robust offsetting mechanisms where necessary. While we recognise that offsetting in this way does not take the entire economy to 'Net Zero', it does mean that there is a financial incentive on firms to make the maximum possible reduction in emissions.

Our sector employs more than 350,000 people across the UK – with two thirds of those outside London. ABI members are already showing leadership on these issues and driving change in those communities. By sharing good practice across the sector, we can drive further change.

The ABI has a strong track-record of facilitating cross-sector collaboration to enable partnership working and sharing of best practice on societal issues – with a recent example being the launch of the [Making Flexible Work Charter](#). We will look to extend that collaborative approach to Climate Change and work to ensure the whole sector is able to maximise its carbon emission reductions.

Role of offsetting

To achieve this goal, the industry will be reliant on decisions taken by policymakers affecting the wider economy, including the implementation of proposals in the Energy White Paper and the upcoming Transport Decarbonisation strategy.

Therefore, where it is not possible to reduce operational carbon emissions entirely to zero, we expect that firms will reach Net Zero by using carbon offsetting to address the impact of their residual directly controlled operational emissions.

We recognise that there are concerns about the validity of some carbon offset measures available – therefore, a priority for the ABI will be to engage with the Voluntary Carbon Markets Integrity Initiative (VCMI) to ensure our members are able to monitor the integrity of any 'carbon credits' used. We will be working to identify suitable partners who can provide high quality 'carbon credits' and to do this, we will be relying on guidance from climate scientists.

Our main objective will be to ensure that any offsetting has a positive long-term impact on nature and biodiversity – we hope that the proposed development of the TNFD (building on the existing work of the TCFD) will allow the two issues to become better aligned.

Policymakers must ensure that the current lack of consistent accounting methodology is not a barrier to investing in nature.

Examples of actions that ABI members are taking to reach Net Zero in their directly controlled operational emissions include:

Reducing the carbon footprint of offices, business premises and data centres – such as adopting renewable energy and installing energy efficient devices; minimising waste and increasing composting, re-use and recycling; not using single-use plastic. Often this will require ABI members to engage with landlords, building operators and (where applicable) technology providers – we hope by doing this to encourage other businesses to adopt the same changes.

Engaging with other local businesses and services – in many cities and towns in the UK, Insurance and Long-term savings providers are amongst the largest local employers and therefore have considerable scope to co-operate with other local businesses, local service providers and local authorities on energy efficiency, waste reduction and promoting biodiversity.

Supporting employees – the Insurance and Long-term savings sector is already committed to providing high-skilled and lifelong careers, and to supporting colleagues with their mental and physical wellbeing. A central part of this will be providing support so that employees can measure and then reduce their own carbon footprint (at work and in their personal lives), and promote opportunities for employees to protect the environment and encourage biodiversity.

Adapting to changing work patterns – in common with many other sectors, we also recognise that existing calculations of operational emissions will need to be updated as businesses confirm plans for additional flexible working arrangements and fewer expectations for office-based working. While we think it is premature to finalise this aspect while the pandemic is ongoing and long-term decisions are subject to change, we believe in principle that emissions associated with home-working should be accounted for within businesses' emissions reporting.



Indirect Operations and the Supply Chain

In addition to the financed emissions (through the industry's investment and underwriting capacities) covered as part of Pillars One and Two in this Roadmap, the UK Insurance and Long-term Savings sector has a considerable operational supply chain – which provides direct support to homes and businesses across the UK by arranging pension and income protection payments, organising repairs and replacements, commissioning healthcare treatments and repatriating overseas travellers.

Assessments currently being undertaken by ABI members suggest that as much as 90% of the sector's operational emissions will come from the wider supply chain, rather than through services delivered 'in house'.

Action on our supply chain can drive consumer choices and influence behaviour more widely. It is an area where we can be pro-active and set high standards that result in meaningful change.

This pillar is not merely as a 'footnote' to action across ABI members' investment and underwriting portfolios – it is in fact the area where we can move quickest in putting our commitment to tackling Climate Change into practice and show leadership.

As part of the target-setting process covered in Pillar One of this Roadmap, firms will be working to quantify these emissions and establish a framework to reduce them.

Further work is required here – however, in order to demonstrate commitment and ensure this is prioritised, ABI Board members have agreed to engage proactively with businesses across the sector's supply chain to ensure these emissions are accounted for within the overall scope of the 50% emissions reduction target for 2030.

Our sector will only be able to achieve this target if there is co-ordinated action across multiple sectors, but we will drive this by embedding **a clear set of Net Zero alignment principles across our sector's supply chain.**

The aim of these principles will be to ensure ABI members can encourage all of their suppliers and partners to become part of the Race To Zero and work with appropriate frameworks to reduce their carbon footprint.

While insurers have different supply chain models – with some firms providing services 'in house' that others will procure through third-party suppliers (meaning that precise definitions of what sits within Scopes 1,2

and 3 will be different for individual firms) – there is still considerable scope for collective action that will lead to lasting change and crucially, given the size and reach of our industry, contribute to a cultural shift where all suppliers, large and small, can see value in making the transition.

ABI members regularly work with and procure services from SMEs across the UK. Helping these businesses make progress towards Net Zero will require collaboration and support – in particular for the SME sector that provides many of these services. A priority for the ABI will be to engage with the [SME Climate Hub](#) and ensure that our sector's supply chain support this process and are able to make use of its resources, toolkits and ambition so that they can demonstrate that they are on the pathway to Net Zero.

As our understanding of these issues evolves, we will also consider where approaches adopted for procurement can be applied to partners within the wider transaction and value chain involved in arranging long-term savings and providing insurance cover.

The four immediate pro-active steps that the ABI is working with its members to deliver across the sector are:

Taking account of emissions reduction strategies and targets in supplier on-boarding

A number of suppliers across the sector have already made significant commitments to tackling Climate Change, and many have already made a clear commitment towards reaching Net Zero.

The ABI will be actively encouraging suppliers to set targets (using the support offered by the recognised external frameworks) and to become part of the 'Race To Zero' campaign (including by working with sector-specific Race To Zero partners or through the SME Climate Hub).

By onboarding more suppliers into the process of setting emission reduction targets, our sector has the potential to make immediate inroads into carbon reduction for individual firms. It also acts as a clear signal to educate suppliers about the future direction of travel.

The ABI will use its convening power to encourage the use of consistent methodology in encouraging suppliers to incorporate Climate Change targets – as ABI members will often source services from the same suppliers, this consistency will encourage more businesses to review their emissions and identify where they can make emission reductions.

Making sustainability a factor in decision making on suppliers

Procurement processes can be used to encourage behavioural change across multiple sectors – ranging from outsourced service partners used for administration (for policyholders and employees) to businesses that ABI members partner with to settle claims.

Increasing the weighting dedicated to climate related activity in tenders will set a marker for firms going through a competitive bid process. We believe this will have a particular impact on mid-tier suppliers that may not be ready to sign up fully to recognised external frameworks for setting GHG targets.

Individual insurers will continue to operate competitive procurement processes and set bid criteria according to the nature of the service provided and the scope and duration of contracts.

The ABI will work with members to develop a common principle of asking providers what their strategy for addressing Climate Change is, their progress in evaluating their carbon footprint and any associated GHG reduction strategies they have in place. Adopting this principle will both shape behavioural change across the various sectors ABI members partner with and, over time, will lead to more providers onboarding sustainable suppliers.

Tracking Emissions and Driving Further Change

Once the initial two principles outlined above have been adopted, a longer-term priority will be evaluating how suppliers are reducing their emissions as product development and their own carbon reduction strategies become established.

Currently evaluating the emissions from purchased goods and services is largely dependent on proxy data. To make more progress, individual firms will need a more accurate picture on supply chain emissions and the downward trajectory taking place. From this, the industry collectively will understand which sectors are making progress and where others need more support.

This will also directly impact the industry's performance against our own sector's emission reduction targets (as described in Pillar One of this Roadmap) as it will enable insurers to track emissions accurately over time and see more targeted engagement with suppliers.

The ABI will facilitate co-operation between our members so they can gather a more sophisticated understanding of key trends affecting their suppliers as carbon reduction becomes normalised and suppliers adopt new technology and processes to bring greener products to market.

Changing how we use products and services to support a 'circular economy'

There are a number of services that each ABI member will procure separately – but use in identical ways. This is especially true where they are used to facilitate mandatory obligations to policyholders or regulatory reporting.

In addition to the upfront procurement processes, there is scope for ABI members to work together to improve the way that paper is used or waste is managed. While individual ABI members are already actively considering these issues, collective action will increase the sector's ability to make these changes.

The ABI will facilitate a mechanism for members to identify common 'hotspots' where the use and disposal of products does not meet sustainability goals, with a view to finding solutions and extending best practice.

PILLAR FOUR

HELPING SOCIETY ADAPT

Helping customers and stakeholders adapt to a changing climate

While our sector is committed to reaching Net Zero in its own operations and activities, we can also play a wider role in helping the customers and stakeholders that we work with adapt to a changing climate – helping them take action to reduce emissions, mitigate the impact of temperature rises and become more resilient to the effects of a changing climate.

This is essential to the future of our sector – alongside our role as investors in the transition from brown to green, the general insurance sector will also face the cost of Climate Change.

These costs will affect a wide range of general insurance products. Examples of this could include physical impacts leading to property insurance claims for flooding and other forms of weather and motor insurance claims associated with impaired driving conditions; claims associated with disruption to supply chains (i.e. where goods have not been able to arrive on time or have been damaged in transit, as a result of disruption caused by extreme weather) and health insurance claims related to the physical and mental wellbeing impact of temperature rises. There may also be an increased risk of infectious diseases associated with rising temperatures, which could also result in significantly increased reliance on insurance.

The actions outlined in Pillars One, Two and Three of this Roadmap are intended to show leadership and encourage change through investment, finance and insurance cover – but it is through the services we provide to households and businesses across the UK that we can maximise the impact of this.

The Climate Change transition is not simple or short-term. The changes that are envisaged in individual customers' lives are significant and these changes will have significant social consequences.

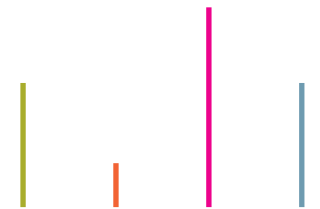
As the Government takes forward its Net Zero Strategy and its Heat and Buildings Strategy, and prepares for the 2030 deadline for phasing out non-electric vehicles, our sector wants to ensure it can support all of these initiatives.

The implementation of the Government's Net Zero Strategy takes account of our sector's unique role helping society manage risk and plan for the future. Insurance and Long-Term Savings cannot be an afterthought when making these policy decisions.

The ABI routinely works with almost every Government department and the devolved administrations, as well as with regulators – it is through this wide-ranging engagement across public policy making that we can meet the challenge set by UN Special Envoy on Climate Action and Finance Mark Carney to make climate a factor in every financial decision.

Every part of the Insurance and Long-term Savings sector will have a role to play – and the sector will need to be innovative and adaptable as the policy decisions to get to Net Zero are taken. We are clear that we do not yet have the complete picture of how the sector will need to evolve to combat Climate Change.

In a world of rapid digital transformation, scientific and engineering innovation and changing working patterns, the existing range of Insurance and Long-term Savings products will not be enough to drive the changes needed. Our sector already has a proven track-record of encouraging and enabling innovation – with a competitive market that has been open to new entrants and a healthy and thriving 'insurtech' sector. Meanwhile, the sector's expertise in data will play a key role – especially as the demands of TCFD implementation result in a large increase in the level of data available across the economy.



In addition to the innovative products that will come from individual ABI members, the growing insurtech community and potentially from new entrants into the sector, there are some key areas where we believe our sector can have a unique impact and where the ABI is committed to working collaboratively to help our customers and the stakeholders we work with across the economy adapt.

1 MAXIMISE THE IMPACT OF SAVING FOR RETIREMENT

It is clear that the public are increasingly committed to taking steps to reduce their own carbon footprint, protect the environment and reduce the impact of Climate Change. You can see evidence of this in people's everyday lives – from smaller changes such as increased household recycling to increased uptake of renewable energy tariffs.

However, ABI members have found that many customers want more support to make choices with their pension savings that align with those sustainable choices.

This means ABI members making it as easy as possible for every pension saver to understand the choices available to them – including providing consistent and clear information within product information documents, factsheets and tools available directly to customers and that financial advisers ensure savers can make informed choices.

An important aspect of this will be ensuring that customers are able to understand the suitability of a product for addressing Climate Change. Some options will reflect the fact that transitioning sectors from 'brown to green' may mean that carbon footprints are higher in the short-term, but that there is greater scope for shaping significant carbon reductions in the long-term (as compared to products that focus only on less carbon-intensive sectors).

ABI members have begun the process of rolling out increased disclosure and transparency and this will accelerate as the UK Government's mandatory TCFD reporting requirements come into effect and increase the accessibility and consistency of the data firms need for this. The UK's approach to green taxonomy will need to continue to account for the long-term nature of transition strategies risks creating unintended social consequences.

2 ENCOURAGING SUSTAINABLE DECISIONS AT KEY MOMENTS AFTER INSURANCE CLAIMS

As insurers, we help our customers when unexpected events happen – including when they need home repairs after flooding or fires, or after a motor accident.

Over the coming years, with rapid policy changes expected across these areas (from the rollout of electric vehicles, upgrading the energy efficiency of buildings to reform of social care and increasingly flexible working patterns), the point at which someone makes an insurance claim will be a key moment when they could make a change to a more sustainable alternative.

With the right incentives and options, ABI members can help identify opportunities to increase the uptake of sustainable choices – such as in the following situations

- Switching to an electric vehicle after having their car 'written off' (rather than a like-for-like settlement)
- Replacing their household appliances with a sustainable alternative (rather than

Through our networks and member groups, the ABI will work to identify

- The key moments in savings journeys where sustainable choices can be encouraged
- Any policy or regulatory changes needed to enable the right information to be provided at these key moments
- Where best practice can be adopted across the sector
- How to achieve the consistency needed to allow like-for-like comparisons to be made.

As a first step to achieving this, **the ABI** is taking forward the following two workstreams

- Helping individual savers understand how 'ESG' (Environmental, Social and Governance factors) and other climate-related concepts relate to their pensions and savings - ensuring they know what to look for when making sustainable choices.
- Engaging pro-actively with initiatives to ensure that customers are presented with consistent information on the green credentials of products, including through responding to the FCA's ongoing work on investment labelling and the implementation of the UK's Green Taxonomy.

Government and regulators will need to act to address any gaps and inconsistencies, where current reporting and disclosure requirements prevent customers from receiving the right information at the right time, and ensure that the development of a green taxonomy within the UK reflects the important role of transition finance.

installing a like-for-like replacement of the model the policyholder had when they made a claim

- Improving the energy efficiency of their home or business property alongside any other repairs needed.

The ABI will work with members and engage pro-actively with our counterparts in other economic sectors to define what would be required to enable customers to take sustainable choices while resolving claims – focussing in particular on motor and property claims in the first instance.

Government and regulators must co-ordinate policy making and manufacturer-led initiatives so that customers can access sustainable options as part of their insurance settlement. This will require flexibility and a willingness to design publicly-funded schemes aimed at increasing uptake to interact with insurance claims. Without the right incentives at the right time, these opportunities could be lost.

3 ENCOURAGING THE DEVELOPMENT OF MARKETS FOR REPAIR AND REPLACE

Every day, insurers process £47.2m in motor and property insurance claims – meaning insurers are responsible for a huge volume of property maintenance, motor repairs and replacing products across the whole of the UK.

More needs to be done to encourage re-use, repair and recycling across these insurance claims.

There are some parts of the insurance market which already encourage repair and replace – for example, the ABI Salvage Code is designed to ensure that when a vehicle is ‘written off’, there is clear criteria that allows vehicles and parts to be repaired and then safely returned to the road – with only vehicles that are classified as structurally unsafe removed entirely from the road.

However, there is much more that we can do. In taking forward this Roadmap, the ABI will explore with members how we can encourage more sustainable choices. Issues we will explore include:

- Encouraging customers to accept repaired or recycled items as part of their settlement, rather than automatically offering brand-new items after a claim
- Working co-operatively across the sector after a major weather event to reclaim

as many damaged items as possible and arrange for these to be transferred to organisations that can re-use or repair them

- Partnering with the independent healthcare sector to develop safe alternatives to single-use plastic and other unsustainable items in hospitals and healthcare
- Encouraging the development of a sustainable secondary market for electric vehicles (as early adopters increasingly look to upgrade their current vehicles) and establishing consistent practice for re-using and recycling charging equipment.

ABI members will work in partnership with manufacturers and suppliers to achieve this – by utilising the key decision touchpoints that follow from an insurance claim, customers who would benefit from being given these choices can be identified and sustainable markets can develop,

To support this, **the Government** will need to build on the ‘Right To Repair’ law announced in March 2021 and encourage investment in the networks and skills required to repair items that are currently treated as waste and ensure policy drives a robust secondary market (rather than just focussing on markets for ‘brand new’ goods).

4 MAXIMISING THE IMPACT OF THE BANK OF ENGLAND’S CBES EXERCISE

As set out in Pillar One, the 10 largest insurers in the UK – along with the seven largest banks – recently completed the Bank of England’s Climate Biennial Exploratory Scenario. As a signal of how seriously our sector is taking Climate Change, a number of other firms voluntarily completed their own internal assessments using the CBES materials. .

This was not a formal ‘stress test’ – but it will provide valuable insights, both for individual firms on their own climate exposures, and on the insurance market’s preparedness as a whole.

Each participant was required to conduct an extensive data collection, covering either their investment counterparties (for long-term savings providers) and underwriting portfolio (for insurers), and then provide extensive qualitative and quantitative analysis.

The ABI is committed to working with our members to ensure that this exercise results in meaningful insights – it will not just be a test of financial stability, but also an opportunity for an in-depth, consistent analysis of our understanding of the impact of Climate Change across different parts of the economy.

The ABI and its members are learning from the CBES findings and are prioritising any areas where further action is required. This will also mean working with the wider sector to ensure that there is further innovation in data gathering, modelling and analysis to address any issues highlighted.

ABI members invested significantly (in terms of time, tools and data) to complete

the CBES exercise effectively – to ensure that it can set a meaningful benchmark for prioritising how the sector should address Climate Change.

ABI members will continue to actively participate in the joint PRA/FCA Climate Financial Risk Forum (CFRF) and its working groups. We see this work as a crucial part of aligning the industry’s approach with the Government’s Net Zero strategy.

The Bank of England must ensure that this exercise is not just used to critique the industry’s approach to date – they must cross-compare the conclusions against approaches in other sectors of the economy and consider where enhanced data, changes to the regulatory regime and clearer guidance would enhance firms’ approach to climate risk.

In turn, this extensive exercise must inform how the Government implements its Net Zero and Energy Security strategy – in particular, it will be an urgent priority to address any gaps or inconsistencies in the available data and evidence that are highlighted by the exercise.

Ensuring the lessons learned from the CBES are acted upon should be an ongoing focus for the CFRF, which since its formation in 2019 has allowed Insurance and Long-term Savings providers to work in partnership with regulators to develop new tools to address Climate Change.

5 SUPPORTING A 'JUST TRANSITION'

We recognise that not everybody is starting from the same place in their transition to Net Zero and that, due to the costs involved and the scale of change, the impact on the most disadvantaged in societies will need to be carefully managed.

For many communities, there will be considerable change to their homes and local infrastructure as a result of the need to transition to a Net Zero economy and adapt to the physical effects of a changing climate. The risks associated with change on such a rapid scale will often need as much attention as the risks that come directly from climate change itself.

We see our sector playing a key role in helping people manage these risks, including:

- Ensuring there are flexible savings options that encourage sustainable investment across a range of different risk appetites
- Ensuring insurance products remain affordable and that the cost of insurance cover does not disincentivise more sustainable choices
- Working with the Government and other stakeholders to identify and prioritise those who will need the most help adopting green technology and upgrading buildings
- Ensuring that there is protection available against the full impact of these changes – so that people are covered not just for the use of new devices and technology adaptations, but also the installation, maintenance and charging infrastructure

- Educating customers about the options available to them across the full lifecycle of their insurance and long-term savings products (not just when taking out new policies or at renewal)
- Working with our partners to ensure the principles and approaches identified in this Roadmap are promoted across the full insurance and long-term savings value chain.

The ABI is committed to ensuring our sector is able to support the most vulnerable across society – we will work to ensure that our approach to Climate Change is aligned to other priorities for the sector, such as supporting vulnerable customers and diversity & inclusion. We will continue to drive diversity and inclusion across the sector – businesses with diverse leadership will always be much better equipped to consider the multiple, cross-cutting impacts of Climate Change on society than those who look at these issues from a narrow perspective.

ABI members remain committed to this and will continue to ensure that the environmental considerations within the 'ESG' agenda are aligned with an equally strong focus on social factors and on robust, diverse governance.

The Government and regulators can also support this agenda – to make Climate Change a key factor in every financial decision and transaction, it must be fully embedded into every public policy decision and must not be taken forward in isolation from the focus on 'levelling up' and 'building back better'.



For more information
visit:

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Updated July 2023

ENDNOTES

1 Clarification over Scope 1, 2 and 3.

The ABI believes that any organisation setting Climate Change targets should rely on external expertise and subject their processes to validation by independent experts.

It is important that targets account for the full scope of emissions – using the methodology of classing emissions within three ‘scopes’, as agreed in the international Greenhouse Gas (GHG) Protocol.

For our sector, primarily providing financial services rather than physical products, most of our emissions footprint will fall under Scope 3.

However, the precise definitions of what activities fall under which scope will vary from firm-to-firm (as some firms manage certain activities ‘in-house’, meaning they would usually fall under Scope 2, while other firms manage the same activities through external partners, meaning they would usually fall under Scope 3).

Therefore, we have not used the Scope 1,2 and 3 breakdown in this Roadmap – for clarity, we confirm that it is our expectation that any Net Zero strategies set by ABI members will seek to account for the full scope of their operations (including Scope 3), wherever the necessary data exists and will be revised as better information on Scope 3 emissions becomes available through mandatory TCFD reporting and other related initiatives.

ABI members who are already part of an initiative or network that is an official Race To Zero partner include:

Aviva; Allianz; Pheonix; Direct Line Group; Zurich; Scottish Widows (part of Lloyds Banking Group); Royal London; AXA; M&G; Swiss Re; QBE; Scor; Blackrock; Fidelity; Vanguard (Long-term Savings member) – this information is based on the organisations listed as members on the relevant network’s website and is correct as of 30th June 2021.

