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Just Transition Finance

Pathways for Banking and Insurance

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Contents

Executive summary and recommendations

This report serves as a guide for banks and insurance companies on the role of banking and underwriting activities in promoting a just transition to low-carbon, climate-resilient economies. It details crucial elements, emerging practices and examples, helping banks and insurers to become enablers of a just and inclusive transition.

Climate action must reach record levels to limit the average global temperature increase to 1.5 degrees in order to avert catastrophic consequences, and to adapt to the physical impacts of climate change. It entails a major transformation affecting all sectors, geographies and societies.

Promoting a just transition is essential to achieve broad-based support for ambitious climate action and generate benefits both to the environment and the society, while carefully managing potential adverse social impacts from economic transformation. It requires coordinated action from all parties, tailored to the specific contexts of each region and sector, affected communities, businesses, workers, and vulnerable populations. Voices and perspectives of all relevant stakeholders need to be represented and considered.

Financial institutions play a major enabling role in this collective effort. Financing and insurance coverage are crucial to expand green and low-carbon activities, to help transform environmentally and socially unsustainable practices and activities, and for society to develop resilience and adapt to the physical impacts of climate change and transition pathways.

Financial institutions can adopt a just transition lens to uncover and manage client portfolio' sustainability-related and reputational risks and alleviate regulatory, legal, shareholder and stakeholder concerns. It can further contribute to unveiling commercial opportunities associated with being at the forefront of a green transition, reaching out to underserved markets, accompanying sustainable transformation in rapidly growing emerging markets and developing economies, and benefitting from inclusive economic development in regions in transition.

A just transition approach that cohesively integrates environmental and social aspects can be integrated into the strategy and core business operations of financial institutions. This approach entails a combination of measures to safeguard the rights of affected and vulnerable populations and mitigate potential adverse impacts arising from activities facilitated by financial institutions, as well as proactive efforts to respond to specific just transition needs via innovative products, responsible practices and partnerships.

The strategies and approaches that banks and insurance companies could deploy to contribute to a just transition can be summarised within the following key recommendations:

1 Commit to a just transition.
Secure commitment from senior management and embed it as a part of the organisation's strategic ambitions.

2 Understand just transition and its implications for the organisation.
Recognise the context-specific nature of just transition and map the prevalent transition dynamics affecting clients and other stakeholders. Assess social risks and opportunities presented by climate transition, focusing on their significance for the financial institution along with the social impacts generated by its portfolio.

3 Put people at the heart of institutional strategy and decision-making.
Engage and consult with relevant stakeholders and leverage their knowledge and perspectives to enhance institutional strategy. Promote and contribute to meaningful stakeholder consultations and social dialogue in interactions with clients, service providers and partners.

4 Set out an implementation strategy.
Operationalise just transition concepts in institutional strategy, policies and processes, connecting social and environmental aspects of climate transition. Build organisational capacity and assign responsibilities, leveraging institutional knowledge, fostering diversity and incorporating regional perspectives.

5 Develop products to address just transition related financing and protection needs.
Understand and identify just transition-related financing needs. Tailor products to: support place-based just transition priorities and invigorate local economies; promote investments in green technologies and resilience; foster the development of enabling activities and sustainable business models, and; shield clients, communities and ecosystems from the impacts of climate-induced events and assist in managing transition risks.

6 Focus on financial inclusion and bridging the protection gap.
Customise green finance and risk management solutions to meet needs and seek to expand coverage to affected groups, vulnerable populations, underserved clients and low-income customers.

7 **Strive to uncover and manage client-specific social impacts, risks and opportunities.**

Embed social and employment impacts in client management, risk assessment and financial decision-making processes. Use routine interactions to engage with clients, monitor progress, and effectively respond to risks and opportunities.

8 **Foster behavioural change through client engagement.**

Enhance client relationship by raising awareness of specific social and environmental implications and risk prevention measures. Engage to accompany the development of just transition plans, facilitate the adoption of sustainable practices and their financing. Encourage environmentally and socially responsible choices through financial incentives embedded in products and solutions.

9 **Advance a just transition and enhance capital allocation to place-based needs via partnerships.**

Advocate for a just transition and catalyse action by collaborating with industry initiatives, public finance, local authorities, stakeholders, international organisations, academia and civil society.

Introduction

The global community stands at a pivotal moment in history, grappling with unprecedented environmental challenges that reverberate across borders. The triple planetary crisis, encompassing climate change, biodiversity loss, and pollution, casts a looming shadow over the delicate balance of our ecosystems and the wellbeing of all living beings on Earth.

Despite the collective commitment embodied in the 2030 Agenda for Sustainable Development, the accelerating impacts of environmental degradation and climate change threaten to derail progress. Urgent action is demanded as societies worldwide face the pressing need to recognise and respond to the severity of these issues.

In the next few years, climate action must reach record levels to limit warming to 1.5°C—a goal integral to averting catastrophic consequences. Such a transformation requires a profound shift across sectors and the global economy. The transition to low-carbon and sustainable economies not only offers a pathway to mitigate environmental degradation but also holds the promise of job creation, technological innovation, and the development of resilient societies.

However, the imperative lies in making these opportunities universally accessible and ensuring that the transition does not create or exacerbate existing inequalities. Without careful planning, affected and vulnerable populations risk being left behind, exposed to the effects of climate change and deprived of the economic and social benefits inherent in this historic transformation.

> **"A just transition promotes environmentally sustainable economies in a way that is inclusive, by creating decent work opportunities, reducing inequality and by leaving no one behind. Just transition involves maximising the social and economic opportunities of climate and environmental action, including an enabling environment for sustainable enterprises, while minimising and carefully managing challenges".**
>
> **International Labour Organization**

The concept of a just transition, as outlined in the ILO Guidelines for a Just Transition, emphasises the necessity of aligning the shift to a low-carbon economy with equitable practices that leave no one behind. Globally endorsed, this framework provides principles and policy entry points to guide governments, employers, and workers' organisations in navigating this transformative journey. The importance of a just transition is enshrined in the Paris Agreement and is gaining prominence in the agendas of governments, corporations, workers, and financial institutions worldwide.

Crucially, the financial sector, including banks and insurance companies, plays a key role in supporting a just transition. By directing capital towards green technologies, adaptation solutions and innovative businesses, the finance sector can expedite the move towards a low-carbon, resource-efficient and resilient economy. Simultaneously, responsible finance practices can incentivise businesses to transform their operations and adopt environmentally and socially responsible practices—promoting decent work and contributing to the well-being of communities affected by economic shifts. Insurance companies also play a crucial role in building societal resilience by offering risk management strategies addressing the interlinked social and environmental challenges, and ensuring adequate coverage for affected communities.

By aligning finance with social and environmental considerations, the financial sector can emerge as a catalyst for progress, championing a just transition that safeguards the planet and ensures that no one is left behind in the pursuit of a more sustainable future.

About this report

The purpose of this report is to provide support for the finance sector, particularly private sector banks and insurance companies, to promote the achievement of a just transition towards low-carbon climate resilient economies. It provides financial institutions with practical advice on how to embed just transition considerations throughout their activities and operations in alignment with the goals of the Paris Agreement.

This report complements the ILO Just Transition Finance Tool for Banking and Investing activities,[1] developed by the ILO in collaboration with the LSE Grantham Research Institute in 2022 and expands its scope to include underwriting activities of insurance companies. It is intentionally aligned with the structure of recommendations of the Glasgow Financial Alliance for Net Zero (GFANZ) pertaining to the creation of net-zero plans.[2]

This report outlines the social and economic impacts of the low-carbon transition, highlights the rationale for the financial sector and its pivotal role in promoting a just transition. It then delves into the pathways that banking and insurance entities can take to incorporate the concept of a just transition into their activities.

The document is focused primarily on social impacts, risks and opportunities associated with climate change mitigation and adaptation approaches. However, it is worth noting that a just transition framework can also be applied in a broader context to address social and economic implications that are necessary to solve broader environmental challenges, including biodiversity loss and environmental degradation.

The guidance developed in this report is intended to be used alongside local and regional policies addressing climate change and socioeconomic matters. Its application should be tailored to the specific operational context of each financial institution.

The document recognises that the integration of just transition concepts into the financial sector is a relatively new development. As such, this report offers actionable steps, examples of emerging practices, and suggests additional tools and resources to support this integration.

1. What is a just transition?

The transition to sustainable economies and societies represents a large-scale transformation with implications for countries at all levels of development, across all industry sectors, and in urban and rural areas alike.

The greening of the economy provides an opportunity to promote social justice and address poverty, inequality, and gender gaps, while also enhancing society's ability to manage natural resources sustainably, increase energy efficiency and accessibility, and reduce waste. This shift towards clean energy and green transformation of economic activities is expected to lead to employment opportunities, with ILO research indicating that the employment created in a just transition scenario will offset the job losses and result in a net gain in jobs.[3] Moreover, the climate transition has the capacity to enhance sustainable enterprise creation and skill development, thereby leading to more resilient economic growth and higher standards of living.

However, an equitable distribution of the social and economic benefits of the transition, with no one left behind, is not automatically guaranteed. Some regions, stakeholders and population groups may be disadvantaged in this process. The transition to net zero will inevitably fail if undertaken without due regard to the social implications or if it is not done in an inclusive, consultative, and cooperative manner that promotes equitable distribution of transition benefits and burdens. The unintended negative externalities of the low-carbon transition could undermine social cohesion, weaken support and slow climate action, leading to devastating environmental and economic consequences.

This is why promoting a just transition is of crucial importance. The central idea behind a just transition is to ensure that the shift to a more sustainable future is not only environmentally responsible but also equitable and just for all: workers, communities, affected and vulnerable populations, and future generations.

While coherent public policy is a driving force for a just transition, achieving a just transition is only possible with the active and meaningful engagement of all stakeholders.[4]

A just transition is as much about the outcome as it is about the process. Promoting a just transition implies adhering to an inclusive process, allowing those affected to be included at each stage. If the transition process fails to include engagement with all relevant stakeholders at every stage including planning, implementation and monitoring, equitable outcomes will not be achieved. Social dialogue between governments, workers', and employers' organisations, as well as wider stakeholder engagement, are paramount to integrating various perspectives and generating broad-based support for climate action.

1.1 A just transition in climate change mitigation and adaptation

A just transition approach is relevant for managing various environmental challenges, including preserving biodiversity, and reducing pollution and waste. While acknowledging the importance of a just transition in a wider context, this report focuses on just transition in relation to climate action, including both climate change mitigation and adaptation efforts (Figure 1).

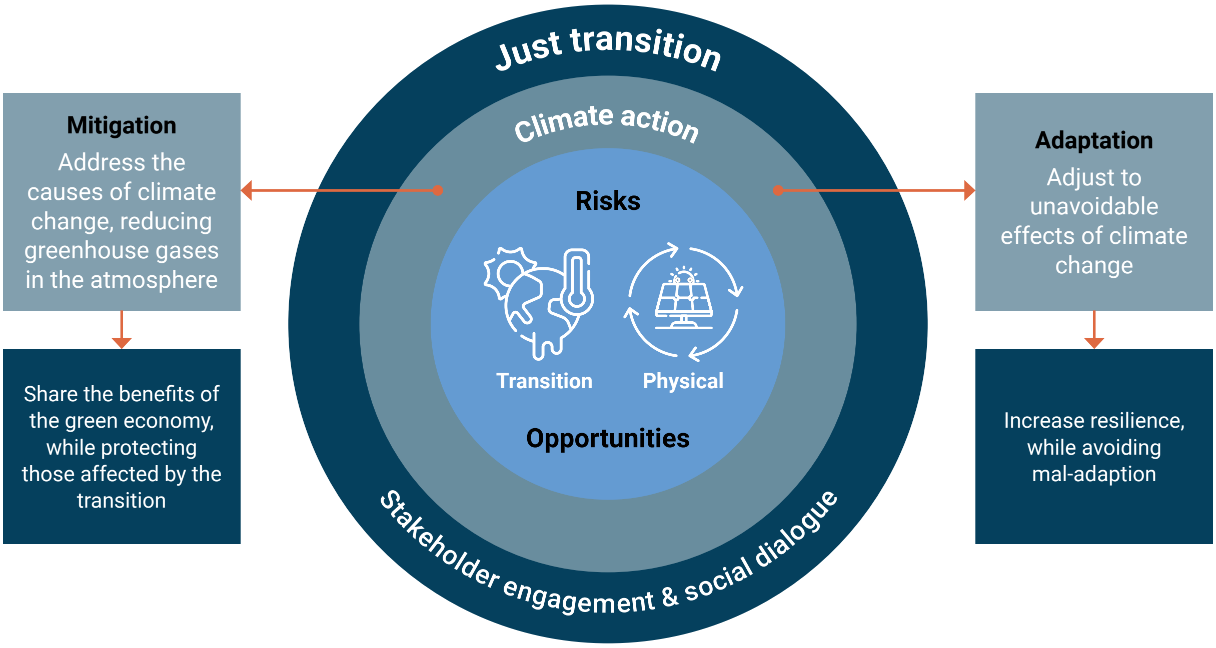


Figure 1: Focus areas of the report

What is climate change mitigation and adaptation?

Climate change **mitigation** refers to reducing the flow of heat-trapping greenhouse gases into the atmosphere. This involves cutting greenhouse gases from major sources such as power plants, factories, vehicles, and agriculture. High-emitting industries will need to decarbonise their activities, which will have ramifications across the supply chain and across entire regions. Forests, oceans, and soil also play a pivotal role in climate mitigation as invaluable reservoirs absorbing and retaining greenhouse gases.[5]

Climate change **adaptation** pertains to adjustments in ecological, social, and economic systems in response to actual or expected climatic stimuli and their effects. This involves a reconsideration of processes, practices, and structures to moderate the potential damages of, or to benefit from the opportunities associated with, climate change.[6]

There are different dynamics involved in the transition to low-carbon and climate-resilient economies.

To mitigate the effects of climate change, high-emitting, hard-to-abate activities need to transform and decarbonise their activity mix. As companies transition to cleaner modes of production and sources of energy, many jobs could be lost or replaced with lower quality jobs. The impacts extend beyond the energy sector, affecting many economic activities, and are transmitted further to supply chains, communities, and entire regions. Simultaneously, green and low carbon activities need to be scaled up. Although green activities can partially absorb the workers from high-emitting industries through reskilling and upskilling, skills mismatches will affect the pace of the transition to green economies. Furthermore, some green and transition-enabling activities may have negative impacts on land, Indigenous peoples, and human rights across supply chains. In addition, there is evidence to suggest that not all jobs in green sectors are necessarily quality jobs.[7]

Climate change adaptation efforts can also generate socio-economic impacts. Maladaptation can reinforce existing vulnerabilities to climate change and its social impacts, create new sources of vulnerability or redistribute existing ones, or introduce longer-term risks by focusing on short-term outcomes.

What is maladaptation?

Maladaptation refers to actions, policies, or practices that are intended to address the impacts of climate change or other environmental challenges but ultimately result in negative or unintended consequences, often exacerbating the problems they were meant to solve. Maladaptation can occur when well-intentioned efforts lack a thorough understanding of the complex interactions between environmental, social, and economic systems. For example, climate-induced migration and displacement, often linked to rising sea levels, extreme weather, or prolonged droughts, can become problematic if relocation efforts are poorly planned. Communities may be uprooted without sufficient support or resources, leading to social dislocation and economic instability.

By contrast, adaptation within the context of a just transition involves ensuring that affected regions and populations have the resources, infrastructure, and support needed to adapt to changing climate conditions, maintain livelihoods and maximise decent job creation. This includes investments in resilient infrastructure, access to healthcare and social services, and community engagement in decision-making processes.

1.2 Social considerations of a just transition

Promoting a just transition implies including social considerations as a part of the climate action efforts.

Examples of potential negative impacts of climate transition measures can be found among the workers employed in the oil and gas, coal and automotive industries, who risk losing their jobs and those who may lack the skills to transition to other low-carbon industries; low-income customers, hit by transition-induced energy and commodity price increases; fossil fuel producing communities facing an economic downturn; or Indigenous communities who may lose access to land, water, or other natural resources due to development of clean infrastructure projects.

Climate transition has differential impacts at the local, national, regional, and global levels, as well as sector-specific implications. It is important to recognise that there is no one-size-fits-all response and tailor just transition support strategies to the unique context of the different regions, sectors, and the affected populations. Examples of how stakeholders, affected populations and vulnerable groups, as well as sector and place-based considerations, might be affected by certain transition impacts is presented in Annex 1.

Stakeholders, affected groups and vulnerable populations

Transitioning to low-carbon economies and adapting to climate change creates opportunities but also brings about social risks and employment impacts. Various stakeholders can be affected by climate transition measures (Table 1).

Table 1: Examples of just transition stakeholders and associated social considerations.

	Examples of major social considerations associated with different stakeholder groups to monitor
Businesses	▪ Directly engaged in defining and executing climate change mitigation and adaptation efforts; ▪ Sudden market shifts can impact businesses and their prospects; ▪ Transition of the workforce and availability of skills to enable the transition to greener technologies;
Workforce, including supply chains	Transition of the workforce and decent work considerations, including: ▪ Displacement of workers and job losses in high-emitting sectors, and their supply chains; ▪ Lack or mismatch of skills and available training to enable the transition to greener technologies; ▪ Issues of labour and human rights in green economic activities, including in renewable energy supply chains (such as lack of freedom of association and the right to collective bargaining; lack of decent wages and working time; lack of OSH measures); ▪ Gender inequality in workforce transition and access to skills development, and non-inclusion of other underrepresented groups.
Communities	▪ Economic decline due to negative spillover effects on communities dominated by high-emitting sectors; ▪ Loss of land, natural resources and livelihoods in the framework of major green infrastructure and clean energy projects ▪ Impacts on Indigenous peoples' rights and traditional livelihoods; ▪ Loss of livelihoods or other impacts due to maladaptation. ▪ Impacts on environmental and human rights defenders in the context of new projects.
Consumers	▪ Affordability of energy and basic goods for low-income households and other vulnerable groups; ▪ Access to and affordability of clean technologies, green housing and mobility, and resilience measures.

Certain affected groups and populations may be particularly vulnerable to both climate change impacts as well as the responses taken to address them. The same groups also often encounter hurdles in accessing economic opportunities arising from the climate transition, and that restrict their participation and influence in shaping the transition strategies that impact them directly. Table 2 highlights how these different groups can be affected by the transition.

Table 2: Examples of vulnerable groups and specific social considerations in the context of climate transition.

Workers in the informal economy	Workers in the informal economy both in high-emitting sectors, green activities and their supply chains maybe disproportionally affected due to lack of access to social protection and unemployment coverage, higher likelihood of being excluded from re/upskilling opportunities, as well as other government support mechanisms.
Women	Both climate change and climate transition processes disproportionately affect women. They: ▪ Greatly lag behind men in terms of work opportunities, treatment, and remuneration. They are more dependent on the informal economy, subject to poor working conditions and have limited access to social protection. The persistent gender wage gap, together with sectoral and occupational stereotypes and segregation, continues to mean that women fall behind men in both the number and quality of jobs they hold. ▪ Often responsible for a disproportionate amount of unpaid household and care work. Climate shocks such as induced water scarcity and disruptions in water supply also can affect women and girls disproportionally, increasing their care burdens, reducing time for study and income-generating activities. ▪ Tend to have less access to climate adaptation resources, including land, credit and other financial services, agricultural inputs, representation in decision-making bodies, technology, social insurance and education.[8] **"A gender responsive just transition includes the protection and promotion of all women's right to work and rights at work and ensures the equal access of women to decent work and quality jobs in all sectors, but especially for small-scale producers."** **Jemimah Njuki, Chief for Economic Empowerment at UN Women**
Indigenous peoples	Indigenous peoples, while maintaining some of the largest carbon stores within their lands[9] are particularly vulnerable to the impacts of environmental destruction and climate transition measures. ▪ They are among the poorest populations experiencing stark inequalities; often living in geographical areas at high risk of climate variabilities and extremes. Their livelihood activities tend to depend on renewable natural resources. ▪ They hold lands containing a big percentage of the transition minerals, and lands required for green infrastructure projects.[10] ▪ Their institutions and rights (including the right to Free, Prior, and Informed Consent—FPIC); often lack formal recognition, resulting in exclusion from decision-making processes, making them more vulnerable to adverse effects of actions taken to combat climate change.[11]
Rural communities	Rural communities, particularly those dependent on agriculture, are deeply affected by changing weather patterns, water scarcity, and a lack of infrastructure. Limited access to resources and social services can exacerbate vulnerabilities, making it challenging for these communities to adapt to the climate transition.

People with disabilities	People with disabilities often face increased risks and disproportionate health impacts because of climate-related events and may also encounter difficulties accessing emergency services or evacuating from affected areas. Representing around 15% of the world's population, persons with disabilities and their rights are often neglected or adversely affected by the design of environmental and sustainability focused policies, programmes and projects.[12]
Younger and older people	Younger and older people both are particularly vulnerable in the context of the climate transition. Younger people and future generations will inherit the long-term impacts of climate change, while older individuals may face increased health risks due to extreme weather events. Older workers may also be particularly vulnerable to job losses and inadequate social protection as they begin to age out of the workforce.
People from lower socio-economic backgrounds	People from lower socio-economic backgrounds: have fewer resources to cope with climate impacts and embrace climate transition measures. They may have limited access to social protection, including healthcare and social services, and face difficulties in accessing education and training opportunities for accessing green jobs. In addition, they tend to lack access to innovative low-carbon technologies and resilience improving measures preventing them from benefiting from opportunities that climate transition generates. Populations with limited access to basic goods face compounded effects as climate events can limit access to housing, food, and resources, leading to increased hardships.
Migrants and refugees	The number of migrants and refugees tends to increase because of the effects of climate change[13]. Both regular and irregular migrants may be subject to violations of human and labour rights, often working in precarious or unsafe conditions.[14] They also face disadvantages in access to decent jobs due to the lack of recognition of qualification, find themselves in situations of informality limiting access to finance and social measures meant to accompany transition.[15]
Ethnic minorities	The impacts of climate change and transition measures are largely determined by the population's vulnerability.[16] Hence, they are more likely to be felt disproportionately by ethnic minorities,[17] as these groups are often among the most marginalised communities.[18]

Compounded inequalities can arise from the intersections of various characteristics, and therefore a holistic understanding of these dynamics is vital to understanding the nuanced impacts of climate transition on vulnerable groups, in order to ensure that these groups do not disproportionally bear the costs of the transition.

Sector-specific considerations

The climate transition has far-reaching implications for various industries and sectors, necessitating significant changes in their operations, practices, and overall outlook. While the energy sector takes central stage due to the urgent need to reduce reliance on fossil fuels and embrace clean energy alternatives, entire sectors, such as construction, transportation, and agriculture, will require restructuring to meet climate transition goals, each in a different way. This underscores the need for a thorough understanding of the sector-specific transition dynamics and particular social impacts of climate transition strategies. Table 3 gives examples of sector-specific transition impacts and associated considerations.

Table 3: Examples of sector transition impacts and social considerations.

Energy—Oil and Gas
Relevance of the industry and climate transition dynamics
The oil and gas sector, including energy use in industry, agriculture, transport and buildings is is responsible for around three-quarters of global GHG emissions. Activities related to oil and gas, including extraction, processing, and transportation, contribute to nearly 15% of the energy sector's overall greenhouse gas emissions. In addition to GHG emissions, the oil and gas sector consumes substantial quantities of water and contributes to environmental pollution through air, noise, soil, and water contamination.[19] Oil and gas production is highly capital-intensive and automated with high productivity rates. The IEA estimates that, in 2019, eight million workers were employed in the oil and 3.9 million workers were employed in the gas supply industry, including employment in extraction, production, transportation, and refining.[20] In addition, the industry outsources many routine tasks to small to medium enterprises (SMEs) and contract workers. The low-carbon transition requires scaling down oil and gas activities. There is a need to critically evaluate which fossil fuel resources should be responsibly retired, kept in the ground, or developed in the short-term with investment focused solely on supporting operations during the transition.[21] The energy industry faces the strategic challenge of balancing short-term returns with its long-term licence to operate.
Examples of sector-specific social considerations
Economic: phasing down oil and gas production over the coming decades will cause significant revenue loss for middle-income countries that produce fossil fuels, with implications for public spending on social programmes and infrastructure, public sector employment, and fossil fuel subsidies for vulnerable groups. **Employment impacts:** although the oil and gas industry is not a major direct employer, it generates large numbers of indirect and induced jobs that are often geographically concentrated, that will be impacted by the low-carbon transition. It would lead to a major restructuring, with losses of up to eight million jobs in the coal, oil and gas production industries.[22] Job gains associated with renewable energy production assume large-scale geographic reallocations. Other characteristics of this workforce, including varying unionisation rates, relatively high pay, and low female participation, will be essential to consider for a just energy transition.[23] **Skills development:** the industry has been at the forefront of technological developments and relies heavily on high-skilled workers. However, challenges in the area of skills development are becoming increasingly complex due to regulatory compliance mandates, an ageing workforce, difficulty in attracting young talent, competition for talent within the broader energy sector and other growth sectors, and the need to improve production rates while reducing environmental impacts and safety accidents. According to an analysis by E&Y, at least 43% of workers will need to be reskilled and up to 17% of workers cannot be reskilled or upskilled. Gender-inclusive training programmes for new jobs such as renewable energy and related industries must be considered because low-carbon transition would require different technical skills such as solar installation and associated electrical engineering.[24] **Affordable and equitable access to energy:** Scaling down reliance on fossil fuels can initially pose challenges to energy affordability due to the established infrastructure and investments in the fossil fuel sector and the investments required for renewable energy generation, particularly affecting low-income population groups. The fact that, approximately 770 million people worldwide lack energy access, impacts energy transition in particular in the emerging market and development economies (EMDEs). **Gendered impacts:** The oil and gas sector has traditionally been a male-dominated industry with women representing 22% of employees.[25] However, many women are indirectly supported by the industry. Its decline, and the knock-on economic impacts on the broader community, will affect women as well.

Social dialogue and stakeholder engagement: Oil and gas projects are often in or near Indigenous land or operate in areas where local communities are land-based. It is important that these actors are included in the transition planning and execution processes including land and water regeneration plans. Due to the major employment impacts of the scale down of fossil fuels, social dialogue is particularly critical in ensuring that workers in the oil and gas sector are involved in restructuring of oil and gas operations.

Agriculture, Forestry and Fishing

Relevance of the industry and climate transition dynamics

Agriculture is the primary source of food production. It provides the essential crops and livestock products that sustain human life. The sector has the largest workforce in the world, employing around one in every three workers, with over 90% of workers in situation of informality.[26] It is also the sector with the highest concentration of poor people.

The agriculture sector is one of the major contributors to greenhouse gas emissions, responsible for 19–20% of total greenhouse gases (GHG).[27]

Achieving a 1.5°C pathway requires actions that extend throughout the agricultural value chain, including reducing food loss and waste, shifts towards less carbon-intensive and plant-based diets, sustainable production practices, leveraging of nature-based solutions,[i] and adapting how the land is used. The increasing reliance on biofuels in the framework of climate transition will also contribute to the ongoing transition from small-scale agriculture to large-scale as well as commercial agriculture enterprises and have the potential to push food prices up. Such shifts in employment patterns will have social and cultural implications for affected communities, in addition to economic ones.[28]

Examples of sector-specific social considerations

Impacts on employment and livelihoods: Low-carbon transition is expected to change patterns of employment in the sector, resulting in fewer jobs in livestock farming and more jobs in reforestation, afforestation, agro-forestry, and sustainable forest management[29] presenting a great potential for CO_2 sequestration, flood prevention, soil protection and green job creation.[30] This means that communities which have traditionally earned their living from small scale agriculture and fishing may be impacted by transitioning to large scale, commercial enterprises, and their livelihoods will be affected.

Skills development for affected workers should be considered to adapt to the employment patterns changes expected in the sector. The diversification of farm operations and products will require farmers to develop different knowledge or skills, requiring reskilling and retraining, sustainable management and conservation and restoration of forests is expected to require highly skilled and specialised workforce. This is particularly important in the context of the sector being mostly informal, with the highest concentration of poor people, and limited availability for formal skills development opportunities.

Working conditions should be monitored as the sector is often associated with informality and issues with respect for labour and human rights, particularly child and forced labour. The agriculture sector is also one of the most hazardous sectors in terms of work-related deaths and injuries, therefore the transition changes foreseen in the sector should be coupled with improvements in health and safety as well as social protection.

Labour and human rights: respect for fundamental principles and rights at work and international labour standards is important. A particular issue within the sector is child labour and modern slavery.

Social dialogue and stakeholder engagement: Workers and tenant farmers are often excluded from the social dialogue processes related to the transition. Stakeholder engagement is important to ensure the inclusion of local communities, land-based communities, and Indigenous peoples.

i Nature-based solutions are defined as actions to protect, conserve, restore, sustainably use, and manage natural or modified terrestrial, freshwater, coastal and marine ecosystems, which address social, economic, and environmental challenges effectively and adaptively, while simultaneously providing human well-being, ecosystem services and resilience, and biodiversity benefits.

Land rights and Indigenous peoples' rights: Indigenous peoples are considered to be guardians of the world's biodiversity; their food systems have high levels of self-sufficiency ranging from 50% to 80% in food and resource generation.[31] This means that considering their knowledge in the agriculture transition is essential for a transition that is just and equitable. Projects supporting climate transition, such as biofuel, nature-based solutions or carbon capturing agro-projects, can impact on local communities and Indigenous peoples' land, leading to housing or livelihood losses.

Affordability of basic goods is important as reduced productivity and food scarcity due to climate change as well as climate transition measures may result in an increase in food costs.

Gendered impacts are quite visible in the sector. Women produce 45–80% of the global food supply and bear most of the responsibility for sourcing food, water and fuel for their families, yet women own less than 10% of the global land supply.[32] Women smallholders tend to produce less food per hectare when compared to their male counterparts, being often excluded from access to capital that would enable them to increase their productivity and get access to new technologies.

Mining

Relevance of the industry and climate transition dynamics

The mining and metals industry plays a crucial role in supplying essential inputs for nearly every aspect of modern society. At the same time, the sector is also highly energy intensive, which can have enduring environmental consequences, and relies on finite resources.[33] Estimates suggest that the mining sector is responsible for 4–7 % greenhouse gas emissions globally.[34] Currently, mineral resource extraction plays a dominant role in the economies of 81 countries that account for a quarter of global gross domestic product (GDP), half of the world's population and nearly 70% of those living in extreme poverty.[35]

The coal mining industry is facing a steady decline as major economies reduce their share in the energy mix. At the same time, an unprecedented rise in demand for critical minerals[ii,36] like cobalt, graphite, lithium, nickel, and rare earth elements is expected for scaling up low-emission technologies such as wind turbines, solar panels, and electric vehicles. According to OECD, the world's demand for raw materials is expected to double by 2060.[37] If left un-managed, mineral development can lead to a myriad of environmental, social, economic challenges. Alternative approaches that focus on circularity and recycling can form part of the solution.

Examples of sector-specific social considerations

Impacts on employment and livelihoods induced by lower production of coal leading to job losses and negative impacts on supply chain and communities heavily reliant on coal mining.

Skills development, particularly in the context of coal-dependent regions, to the extent that the skills required for the energy transition do not match existing skills in the sector.

Working conditions, are of concern particularly in the context of rapidly growing critical minerals mining. Many mining sector jobs are precarious, informal, and are far from conforming with labour standards. Accident rates in small-scale mines are routinely six or seven times higher than in larger operations.

Labour and human rights: a special issue within the sector is child labour and is mostly commonly found in artisanal and small-scale mines,[38] with known cases in some of the critical minerals, such as cobalt.[39]

Social dialogue and stakeholder engagement, including in the context of a decrease in coal production, where attention will need to be given to finding sustainable solutions for affected mines and their workers.[40] Local communities are likely to be directly affected by both the coal mining decline and increase of critical minerals mining. The phasing down of coal will affect the surrounding communities, whose livelihoods depend on the existing mining sites. It is important to ensure proper community engagement including potential environmental remediation plans to mitigate pollution and degradation of the ecosystem.

ii The IEA defines critical minerals as 'a wide range of minerals and metals that are essential in clean energy technologies and other modern technologies and have supply chains that are vulnerable to disruption'.

Land rights and Indigenous peoples' rights due to the rush to supply critical minerals, which adds tension between the stakeholders in minerals-producing countries and the needs of global society[41] leading to pressures on land use and rights as well as water use. Indigenous peoples are also concerned,[42] as 47% of 300 undeveloped ore bodies are situated on, or close to, Indigenous peoples' land, and 65% are in high water risk areas.

Gendered impacts: the mining sector is traditionally male dominated. While women form a minority of the workforce, they are disproportionately affected by negative externalities, such as discrimination and gender-based violence. The growing automation of the sector can transform the opportunities available to women.

Energy—Clean Energy

Relevance of the industry and climate transition dynamics

Mitigating climate change requires "a fundamental restructuring of the energy supply sector", moving away from fossil fuel-based energy production to clean, renewable sources such as solar thermal electricity generation, geothermal energy production, and wind power.[43]

The expansion of renewable energy generation is expected to drive increased demand for transition metals and minerals such as cobalt, copper, and nickel. Deployment of solar and wind power infrastructure necessitates the allocation of substantial land areas. Clean energy needs to be coupled with energy efficiency solutions, storage and grid considerations.

Examples of sector-specific social considerations

Employment impacts: since investments in renewable energy generally generate more jobs than investments in fossil fuels, the low-carbon transition has the potential to generate green jobs. Workers in the sector value chains can also be vulnerable to abuses including forced labour.

Skills development is a crucial consideration in the sector since fast deployment of renewable energy has led to skill shortages in technical occupations, such as solar installers and electrical engineers. Gender equitable skills development is required to restore gender balance in the industry.

Gendered impacts: women and men tend not to have equal access to skills development and green jobs in the sector; gender gaps persist in employment, senior management, and women entrepreneurship.

Land and Indigenous peoples' rights: land is a crucial resource for the energy transition. The amount of land required to scale up wind and solar production is significant. Pressure on land and resources can have potential side-effects on the livelihoods and rights of local communities and Indigenous peoples.

Social dialogue and stakeholder engagement: consultations with the affected stakeholders and communities are required in the framework of renewable project development to address the potential impacts on rights and livelihoods and improve economic linkages with local economies.

Human rights risks and protection of rights defenders: Human rights abuses linked to the construction of renewable energy projects, especially large hydroelectric dams, are well documented.[44] Additional attention needs to be given for human and environmental defenders, grievance mechanisms and access to remedy should be put in place, as well as ensuring that human rights are integrated in in security contracts consistent with the Voluntary Principles on Security and Human Rights.

Accessibility and affordability of clean energy technologies for low-income groups are important as 770 million people still live without access to electricity worldwide. Renewable energy sources can be an opportunity to enhance accessibility and affordability of energy.[45]

Transportation

Relevance of the industry and climate transition dynamics

The transportation sector is a significant contributor to global energy-related greenhouse gas emissions, accounting for 25% of the total global emissions with road transport accounting for 75% and aviation and international shipping accounting for approximately 10% each.[46] At the same time, the transportation sector contributes both to economic development and job creation: land transportation alone provides employment for over 60 million workers worldwide, constituting more than two per cent of the global workforce.[47] The maritime industry transports around 90% of global trade, employing 1.9 million seafarers.[48]

Low carbon within the transportation sector involves supporting modal shifts (e.g., from road to rail); improving public transport systems; scaling up usage of motors with higher fuel efficiency; the use of alternative fuels; and promoting electric vehicles. The decline in commuting due to remote working and learning-also has an impact on the sector. This shift demands advancements in battery storage technology, charging infrastructure, and urban planning. Shifts are also required across aviation, shipping, and heavy goods transportation.

Examples of sector-specific social considerations

Employment impacts: The structural shift in urban transportation away from fossil fuels-dependent mobility towards electrification and the increased use of public transport services is expected to lead to net employment gains. However, the positive prognosis masks considerable reallocation, involving the creation of new jobs in public transport services; rail infrastructure construction; and electric vehicles manufacturing production and maintenance of electric vehicles accompanied by job losses in the conventional automobile industry; changes to the fuel supply chain; and a decline in commuting due to remote working and learning. There are additional impacts on the livelihoods of workers in the formal and informal economy involved in small scale and informal transport services and dependent on fossil fuel-based public transport.

Skills development needs to be considered since new technical skills will be required in emerging sectors, such as public transport operations and services, and repairing electric vehicles.

Social dialogue and stakeholder engagement: solid transition plans are required to support the transformation of the transportation sector and should be based on social dialogue and include informal, platform and app-based workers.

Rights: Transition plans should recognise the rights to freedom of association and collective bargaining within the transportation sector.

Gendered impacts: Female public transport workers face additional challenges compared to their male colleagues, most significantly as a result of gender-based discrimination, harassment and violence; and routinely poor access to sanitary facilities which are clean, safe and dignified.[49]

Equitable access to transportation ensuring people's access to employment opportunities and contributing to economic productivity and reduced inequality; and affordability of sustainable technologies and vehicles. Higher vehicle costs may disproportionately impact lower-income customers who tend to drive less efficient vehicles.

Construction
Relevance of the industry and climate transition dynamics
The construction sector is responsible for 23% of greenhouse gas emissions and utilises between a third to half of the planet's extracted resources. It contributes roughly 6% to the global GDP and provides employment for an estimated 220 million people or 7% of total global employment.[50] A green transition in the sector holds enormous potential for accelerating progress towards achieving climate objectives, for example, by switching to greater use of sustainable, certified and more resilient construction materials, advanced retrofitting buildings for greater energy-efficiency, and building zero-emission buildings and improving resilience against extreme hazards. What is built must last longer and be easier to maintain, upgrade, dismantle and reuse. The retrofitting of buildings also offers an excellent opportunity to remove toxic materials.
Examples of sector-specific social considerations
Employment impacts: The diverse nature of the work allows the sector to absorb workers from other sectors, and workers displaced from declining sectors, including the traditional construction sector, may successfully relocate to green building if relevant retraining programmes are accessible.[51] **Skills development** to meet the needs of sustainable construction, such as retrofitting, use of sustainable materials, energy and water efficiency, complying with legislation in relation to waste disposal in the construction sector, including in increase demand for disaster preparedness for those in the construction sector. Given demand for construction/reconstruction in the event of increased natural disasters, construction workers involved in disaster relief and related remedial work will need training and information, especially on occupational health and safety. **Working conditions:** jobs in the construction sector often come without job security and labour conditions vary widely around the world. Workers in the sector often face hazards. The construction industry boasts some of the worst safety records of any industrial sector.[52] Fatal and non-fatal accidents are commonplace due to lack of proper procedures or the lack of following pre-existing procedures, miss communication, and pressure to work long hours. Another issue is instability, characterised by precarious employment, issues of subcontracting structures, lack of social protection, and instances of exploitation.[53] The undocumented status of many workers in this sector represents an additional obstacle to decent work. **Accessibility and affordability** of green house purchases or retrofitting existing housing is important, as these houses tend to become more expensive, and are not accessible to more vulnerable populations.

Place-based considerations

Most geographical regions are affected by low-carbon transition dynamics in one way or another. However, specific social and economic impacts of the transition are very context-dependent and should be carefully assessed. They can depend on several factors, including:

- **Different place-based impacts of climate change:** Low-lying coastal nations, island states, regions that are already experiencing extreme climatic conditions or heavily reliant on climate-sensitive sectors, and natural ecosystems are typically most vulnerable to the effects of the climate change, and therefore more relying in adaptation measures. Vulnerability to physical impacts of climate change varies greatly depending on socio-economic fabric of the community, availability of social services and community cohesion. It is worth noting that according to ND-GAIN Index,[54] 49 out of the 50 countries that are most vulnerable to climate change are classified as low-income or lower-middle-income.

- **Different transition dynamics at play:** The nature of climate change adaptation and mitigation activities varies by location. Regions that are highly dependent on carbon-intensive activities are likely to face challenges related to worker displacement, job losses and economic decline. Regions engaged in renewable energy expansion may encounter issues related to skills mismatches, rights violations and low-quality of employment associated with some emerging sectors.
- **Different socio-economic endowments:** There are discrepancies within and among regions and countries. Developed countries and emerging economies face particular and distinct challenges that need to be considered when promoting a just transition.
- **National and regional climate policies and regulatory landscape:** Place-specific just transition policies, such as Nationally Determined Contributions (NDCs), local development plans and regional just transition roadmaps, determine the shape that climate action takes in different geographies. Actions to address climate change in some jurisdictions may redistribute and increase risk in others. It is therefore important to consider the possible cross-sectoral and cross-border impacts of climate policies.

The South to South Just Transitions Initiative,[55] identifies some specific just transition challenges of developing countries, including:

- The different nature of transition debates which do not necessarily begin from the premise of a low-carbon transition like in industrialised economies, due to low electricity access rates and rising energy demand and agriculture being an important supplier of jobs and livelihoods.
- High unemployment, external debt and income inequality as well as limited financial or institutional mechanisms to enable climate policies and ensure support to the most vulnerable people, potentially leading to exacerbating the distributional impacts of transition.
- Informality of the labour market, lack of union representation and skills gaps that impair the low-carbon transition.
- Access to natural resources being perceived as an integral part of the spiritual and cultural identity and undefined land rights, which creates additional negative social impacts where access becomes more restricted because of measures to tackle climate change.

2. Why is just transition relevant for banks and insurance companies?

The level of transformation required for a just transition implies that the necessary results cannot be achieved in isolation. It requires an integrated approach involving both public and private actors.

Situated at the core of economic activities, banks and insurance companies face the impacts of both climate change and climate transition, stemming primarily from their client and investment portfolios. While dependent on the economic activities and practices of companies within their portfolios, financial entities' actions can also bring about significant social and environmental impacts through the activities and practices they facilitate.

By directing capital and providing insurance services, financial institutions play a crucial role in enabling the real economy to shift towards environmental sustainability[56] and fostering society resilience. Financing and insurance services are required to expand and further develop green and low-carbon activities, to help high-emitting and hard-to-abate sectors to transform, and for society to adapt to the physical and transition impacts of climate change and develop resilience.[57] Research commissioned by the UN High Level Climate Action Champions finds that the private sector could deliver 70% of total investments needed to meet net-zero goals.[58]

Incorporating just transition considerations into the strategic thinking of banks and insurance companies is imperative for robust organisational risk management that empowers financial institutions to effectively address and mitigate a spectrum of financial and non-financial risks inherent to their client and investment portfolios.

It is now widely accepted that various environmental, social and governance (ESG) factors can be material to the company performance and are therefore worth being thoroughly considered by the providers of financial services and capital. The concept of double materiality, increasingly debated in connection with sustainable finance regulation, takes this notion one step further: it is not just sustainability-related impacts on the company that can be material, but also the impacts of a company on different dimensions of sustainability.[59] A dual materiality perspective approach would call upon financial institutions to proactively evaluate and effectively manage the potential social and economic implications of the climate transition efforts while simultaneously identifying opportunities to facilitate a just transition.

A failure to promote a just transition represents a threat to effective climate action, and can contribute to increased inequality and fuel social unrest. This, in turn, can lead to major financial implications for banks and insurance companies as social instability, transition risks and physical climate change impacts may disrupt clients' business operations due to interruptions in their supply chains, impacts on human health, or loss of livelihoods.

Insurance companies might also face increases in claims and insured losses due to climate change events destroying insured property and crops, disrupting insured businesses, and putting lives at risk. The ongoing impacts of climate change on human health and agricultural yields will have important consequences for life, health and agricultural insurance. The rising costs of providing insurance due to climate change may lead to an increase in unprofitable markets.[60]

Economic decline, induced by climate change or climate transition measures, could lead to a loss of business for both banks and insurance companies as a result of the negative impact on clients in affected regions. Furthermore, extreme inequality, fuelled by the failure to achieve a just transition, represents a systemic risk for the economy,[61] threatening financial stability. Income and regional inequalities, including those resulting from climate change and transition, are therefore highly relevant for the financial sector. In the context of the climate transition, it is crucial to ensure that addressing the systemic risk associated with climate change does not exacerbate the systemic risk associated with extreme inequality.[62]

Rising regulatory pressure around the environmental and social aspects of sustainability, along with increasing investor expectations, are additional push factors for banks and insurance companies. Failure to account for these factors may result in reputational damage.

Examples of rising regulatory pressure

Laws concerning mandatory human rights and environmental due diligence approaches have been adopted over past several years in different countries such as Belgium, France, Germany, the Netherlands, Norway or Switzerland, and are currently under discussion in Republic of Korea and in the European Union.

Sustainable finance taxonomies are developed to guide financial institutions in separating economic activities that can be considered as contributing to sustainability. The ASEAN taxonomy for sustainable finance, defines environmental objectives to which an economic activity needs to contribute and three essential criteria to be met, one of which social aspects. The EU taxonomy requires economic activities to make a substantial contribution to environmental objectives, ensuring that no significant harm (DNSH) for other environmental objectives and minimum social safeguards are meet. In Canada the taxonomy has not only environmental DNSH criterion, but also social criterion related to Indigenous rights and harm to workers and communities. Mexico, taxonomy is the first in the world to also consider social objectives.

Examples of investor expectations

Among the examples showing increased shareholder attention and expectations are the shareholders of the Commonwealth Bank of Australia, who initiated legal action against the bank requiring disclosure of documents related to the bank's involvement in a series of fossil fuel projects that potentially infringed the bank's environmental and social policies under the Corporations Act of 2001. The Federal Court allowed the plaintiffs to inspect a limited scope of documents and ordered the Commonwealth Bank of Australia to produce the relevant documents.

Several major investor coalitions, such as CA100+ and Institutional Investors Group on Climate Change (IIGCC) as well as the World Benchmarking Alliance (WBA), have put in place methodologies focusing on just transition alignment of potential investments. Investors and investor coalitions also increasingly use a just transition lens in their engagement with companies. The WBA has convened a group of investors in a Collective Impact Coalition (CIC) on the Just Transition. As a part of this coalition, 54 asset owners and asset managers from around the globe signed on to the sent direct letters to publicly listed companies that were part of the WBA Just Transition Assessment to request progress. A subset of eight benchmarked oil and gas companies are now in an engagement trajectory with 14 investors. These engagements aim to encourage investee companies to implement processes and disclosures related to the just transition.

Finally, the rapidly evolving regulatory landscape of the financial sector may also generate potential legal liabilities for organisations that fail to comply with increased obligations. Climate litigation is increasing and broadening in geographical reach and scope, with 2,180 cases filed in 65 jurisdictions in 2022,[63] including in the emerging field of just transition litigation.[64]

Beyond risk management and achieving positive social impact, championing a just transition also positions financial institutions at the forefront of emerging opportunities in sustainable finance.

By actively supporting a just transition, the finance sector can tap into a wealth of business opportunities and respond to stakeholder expectations. This includes opportunities associated with supporting clients involved in innovative green technologies and sustainable business models, thereby gaining exposure to rapidly growing businesses and emerging markets. This would bolster the organisation's perspectives and its competitiveness.

In addition, commercial opportunities can arise through extending financial services to customers and geographies affected by the transition or traditionally underserved, which contributes both to promoting financial inclusion and to driving local economic development. This not only enhances social equity and advances the overarching goals of sustainability, but also contributes to the prosperity of existing clients and opens up new markets and customer segments for the financial institutions involved.

Examples of climate litigation connected to just transition

In at least one of just transition litigation cases, a specific ruling mandated the introduction of a just transition strategy for the workers impacted by the potential loss of direct and indirect sources of employment resulting from Chile's Energy Sector Decarbonisation Plan. While not targeting a financial institution directly, this case, from 2021, sets a precedent highlighting the significance of addressing social and labour impacts when implementing corporate climate transition plans. As different jurisdictions and regulatory environments begin to encourage, or even mandate, transition strategies among private sector actors, such precedents may have significant implications for banks and insurance companies.

In 2023, UN human rights experts took action for the first time with regards to financial backers of oil and gas industries and their human rights responsibilities in the context of climate change, under the UN Guiding Principles on Business and Human Rights.[65] They issued a warning to an oil company and its financial backers, which include major financial institutions, over the human rights impact of their contribution to the climate crisis, warning that the company's activities may contribute to undermining the Paris Agreement in the face of the existential threat to human rights posed by climate change. They also maintained that the involvement of financial institutions in financing the oil company's activities could breach international human rights law and standards.

2.1 Specific considerations for the insurance industry

The insurance industry helps individuals, households, businesses, organisations and the public sector understand, prevent, reduce and cope with risks. This document focuses on insurance companies' core risk management and risk transfer activities, which can have a major impact on supporting a just transition process and outcome.

While not the main focus of this report, it is important to recognise that the insurance industry is a major investor and asset owner in its own right, and can contribute to a just transition through investment decisions. Practical guidance for embedding relevant considerations in insurance companies' asset owner and investor activities is offered in the ILO—LSE Just transition Finance Tool for banking and investing activities. Just transition efforts should be coherent across all types of insurance companies' activities, in order to enhance positive impacts.

Serving as both risk managers and risk takers, the insurance industry's core activities can play a crucial role in enhancing society's resilience and advancing the social dimension of sustainability.

In their capacity as shock absorbers, insurance companies play a vital role in enhancing financial security and facilitating recovery from shocks, including those induced by climate events and climate transition.[66] By extending access to affordable protection against climate-induced and climate transition risks to a diverse clientele—including underserved and affected populations—insurance companies can contribute to the objectives of a just transition by reducing the need for emergency savings and bolstering financial stability.

Insurance coverage also operates as an economic enabler, allowing businesses and organisations to operate, and generating employment, income, and livelihoods. In particular, insurance protection is crucial for scaling up innovative climate solutions, including green technologies, services, and tools essential for orchestrating the low-carbon transition and effectively managing the gradual phase-down of high-emitting activities. Many products and services, including freight, transport, and trade, would be unavailable without adequate liability insurance covering claims for negligence,[67] as well as property and specialty covers in many cases. This relationship that insurance companies and intermediaries have with clients can be used to incentivise positive change in environmental and social practices. Insurance companies can provide coverage and incentives for activities that align, or are aligning, with both environmental and social just transition objectives.

Finally, insurance companies possess a wealth of data on risk and are experts in risk pricing, management, and prevention. The risk expertise of the industry can be built upon to support individual clients and the wider community in their risk management and risk prevention in the context of a just transition. Increasing awareness through risk communication; embedding risk prevention and risk reduction measures in product offerings;[68] providing advice on how to reduce, avoid or share risks; as well as providing value-added services bundled with insurance products can promote both the environmental and social objectives of a just transition.

The insurance industry is already actively engaged in supporting a sustainable transition agenda. For many insurers, climate change has shifted from being viewed as a sustainability issue to being recognised as a part of their core business. Nonetheless, the concept of a just transition as applied to the insurance sector is yet to be fully adopted.

3. Embedding just transition into banking and insurance activities

Banking

Insurance

It is widely recognised that financial institutions have a role to play in combatting climate change and achieving broader sustainability objectives set out by the Sustainable Development Goals (SDGs). By aligning sustainable finance practices with just transition pathways to a low-carbon and climate-resilient future, including respect for human and labour rights, financial institutions play a crucial role in the realisation of environmentally sustainable economies and societies that leave no one behind.

Numerous sustainable frameworks, standards, regulations, taxonomies, and disclosure requirements for financial institutions have emerged in recent years. However, due to the urgency of climate action, several of these initiatives have primarily focused on, and continue to prioritise, the climate aspects of the sustainability journey. A more limited set of frameworks exists that cover the social dimensions of sustainability and can be utilised to address specific considerations related to a just transition. However, a de-siloed, integrated and holistic approach is needed for financial institutions to identify and carefully manage potential adverse effects of their climate strategies on people, to uncover the opportunities the climate transition presents, and to achieve additional positive social impacts.

An integrated approach requires a full-fledged embedding of relevant transition considerations across organisations and functions, extending beyond the confines of sustainability, corporate social responsibility, and/or impact management teams.

This chapter aims to provide guidance on integrating a just transition perspective throughout the organisational structure and internal processes of banks and insurance companies. It is aligned with the GFANZ Net-Zero Transition Plan Framework[69] and aims to improve interoperability, facilitating the implementation of recommendations by the financial institutions (Figure 2).

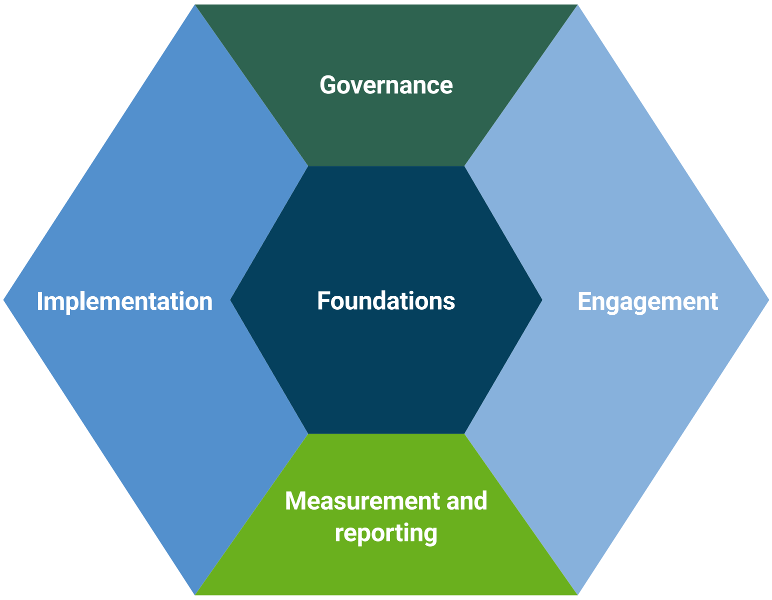


Figure 2: GFANZ financial institution net-zero transition plan framework (adapted)

In addition, references are made throughout the chapter to the corresponding elements of the UNEP FI-led Principles for Responsible Banking (PRB) and Principles for Sustainable Insurance (PSI) frameworks, which support financial sector actors to tackle sustainability issues in a holistic manner.[iii]

A two-pillar approach

Mitigating the risks of climate transition on people and preventing social harm constitutes an integral part of supporting a just transition. These can be partially achieved by complying with the social safeguards and performance standards set out by international organisations to protect human and labour rights, including Indigenous peoples' rights.

Although it is a necessary condition, compliance with social safeguards and performance standards alone is not sufficient for financial institutions to promote a just transition. Intentional and proactive efforts are required to mitigate some of the impacts of climate transition. These include negative direct and indirect employment impacts; economic decline in fossil-fuel dependent regions; skills mismatches and shortages; and transition-induced gender imbalances.

iii For practitioners following the UNEP FI Impact Analysis Methodology, dedicated boxes are included at the end of each chapter to show correspondences with the present report. In addition, a mapping between the report and the IMP Actions of Impact Management is provided in the Annex 2.

The UNEP FI Holistic Impact Analysis Methodology is a five-step process to understand and manage potential and actual positive and negative impacts across the spectrum of environmental, social and economic issues, as described in the Impact Protocol for Banks and in conformity with the requirements of the Principles for Responsible Banking. The Portfolio Impact Analysis Tools for Banks is an iterative input-output workflow which uses input data in combination with a set of in-built resources (Impact Radar and Impact Mappings) to produce a number of outputs, to help banks identify their most significant impact areas and determine priorities, thus setting the basis for strategy development and target-setting

A two-pillar approach to promoting a just transition, suggested in this document requires carefully managing risks by ensuring compliance with social performance standards, while also enabling a substantial positive social impact (Figure 3). These two pillars are inextricably linked.

Both pillars rely on efficient stakeholder engagement, including social dialogue between governments, workers, and employers' organisations, placing people at the centre of the transition process in order to shape and implement human-centred, low-carbon transition strategies within financial institutions.

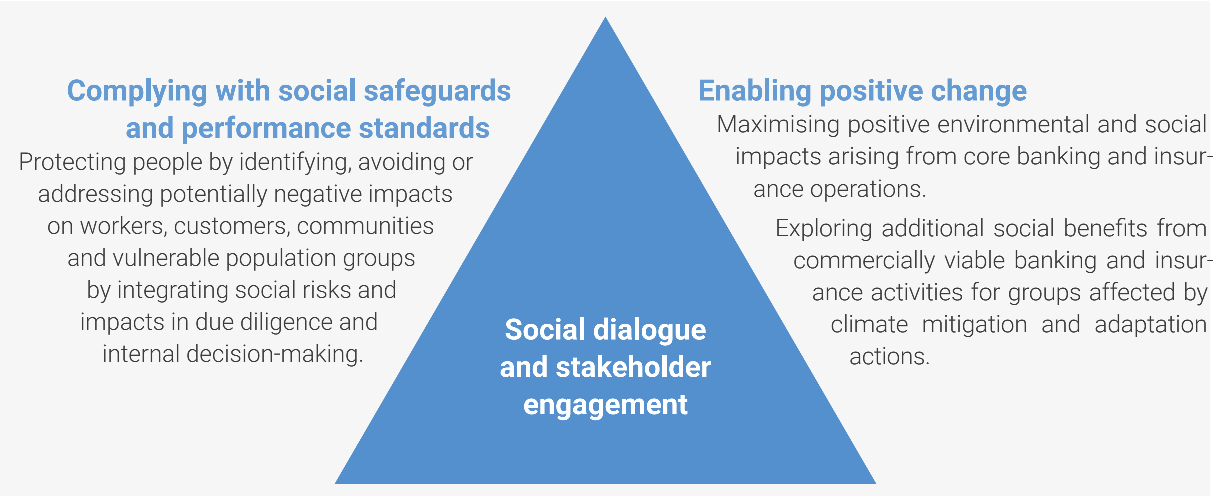


Figure 3: Two-pillar approach

Compliance with safeguards and social performance standards aims to ensure that specific social impacts, vulnerabilities, and barriers that affected groups face are considered and addressed across all banking and insurance activities, thereby minimising harm that could be generated by climate action activities financed or insured by financial services providers. In addition, it contributes to reducing the potential reputational, regulatory, and legal risks that banks and insurance companies may face.

Examples of frameworks that outline social safeguards and performance standards, including responsible business conduct, are:

- the United Nations Guiding Principles on Business and Human Rights;
- the International Labour Standards;
- the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy;
- the OECD Guidelines for Multinational Enterprises;
- the OECD Due Diligence Guidance for Responsible Business Conduct;
- the IFC Performance Standards; and
- in the case of project finance, the Equator Principles.

Although these frameworks are not specifically developed to support a just transition, compliance with the principles outlined represents a necessary step for financial institutions in the context of supporting climate transition.

Banking

Insurance

UN Guiding Principles on Business and Human Rights (UNGPs)

The UNGPs were unanimously endorsed by the UN Human Rights Council in 2011 and provide the authoritative global standard to prevent and address negative human rights impacts related to business. The blueprint for respect for rights laid out in the UNGPs is usefully applicable to impacts on people associated with the climate transition.

The UNGPs call on all businesses—including financial institutions—to ensure that the full range of their activities respect, at a minimum, the rights contained in the International Bill of Rights and the ILO Core Conventions.

Pursuant to the UNGPs, financial institutions—as with other business enterprises—have a responsibility to respect human rights. This includes undertaking human rights due diligence to identify, prevent, mitigate and account for impacts on human rights with which they are involved and providing remedy for adverse impacts which the enterprise has caused or contributed to. Where a business enterprise, such as a financial institution, has neither caused nor contributed to an impact, but there is a direct link between the impact and their operations, products, or services through the business relationship, they are expected to use leverage to influence the party causing the harm.

The UNGPs are referenced or are incorporated in numerous international and regional standards, including the OECD Guidelines for Multinational Enterprises and the Equator Principles.[70]

Banks and insurance companies should seek dynamic compliance with social safeguards and performance standards in a constantly evolving context, which requires embedding them at the core of their daily operations. Examples of approaches that promote compliance include, but are not limited to, putting in place human rights policies; integrating labour and social impacts in due diligence and decision-making processes; and adopting responsible human resources approaches.

In addition, through product offering, sustainable finance and adapted risk management practices, financial institutions can meaningfully contribute to generating additional positive social impact, beyond the do-no-harm approach.[iv] Additional avenues include offering financial and non-financial services or investments that create positive impact by connecting to place-based just transition initiatives; promoting just transition-aligned practices within the client base; and partnering with like-minded institutions to address local just transition financing and development needs.

The proposed two-pillar approach needs to be seamlessly integrated into the organisation's risk management and strategic planning processes to ensure that just transition initiatives are not viewed as peripheral.

iv The GFANZ Managed phaseout of coal in Asia Pacific report recommendations for financial institutions on optimizing meaningful impact, explicitly includes reference to socio-economic considerations, requiring financial institutions to assess the measures in place to mitigate adverse impacts of the projects, such as worker and community transition plans, and to support access to reliable and affordable clean energy replacement

3.1 Foundations

Mitigating risks and harnessing the opportunities of a just transition requires articulating what impacts the climate transition has on financial institutions and how the organisation can support just transition processes and outcomes through its core activities.

By outlining how their products and service offering supports a just transition, while achieving long-term business objectives, financial institutions signal to their customers, investors, supervisors, and the community, the organisation's commitment to shaping a sustainable future that leaves no one behind.

The 2021 publication A transition for everyone outlines **HSBC**'s approach to decarbonising the economy while maintaining an equitable and just transition. In a 2023 publication, A Just and Inclusive Climate Transition for an Investment Perspective, the bank outlines the reasons why a just transition would benefit achieving the financial institutions' net-zero commitments; integrates the ILO definition of just transition into company principles; and outlines its commitments and policies related to just transition.

Understand just transition and what it means for the organisation

The just transition approach should be connected to the financial institution's profile, including the nature of their operations, sectoral and geographical footprint, the client segments served and its overall strategy.

To account for the context-specific nature of just transition impacts, a careful assessment of social risks and employment impacts and their implication for clients and prospects should be undertaken in the regions of operation.

Place-based transition strategies and priorities, such as national and regional transition plans are valuable in understanding local just transition needs, and uncovering business opportunities and possible synergies with public and private initiatives.

Commit to support a just transition

Public commitment for a just transition is crucial, sending strong signals within and outside the organisation. It is important that this commitment is well-defined; informed by relevant expertise; measurable and reported on; and approved at the most senior level.

The concrete approaches the organisation intends to put in place to support climate transition and adaptation that leave no one behind can be articulated in the organisation's sustainability, climate or overall business strategies.

Royal London Group's purpose states: "Protecting today, investing in tomorrow. Together we are mutually responsible." The Group is focused on achieving a number of sustainability-related outcomes, including "Moving fairly to a sustainable world", which involves taking a lead in supporting a just transition. As part of the drive to deliver on this outcome, Royal London has designed the Changemakers Programme, aiming to support social enterprises driving innovations to enable a just transition. The second cohort of social enterprises, selected by the Group in 2022, includes eight organisations focused on supporting the people and communities impacted by the move to net zero.

Areti Bank's mission states their commitment to generate a positive impact on people and the environment through products and services. To achieve this, they aligned with both the UN's SDGs and the Paris Agreement based on four business pillars: sustainable energy, cleaner production, green consumerism, and just life.

Operationalise a just transition

Approaches to support a just transition need to be embedded in organisational processes and policies, seeking interoperability and establishing a common language between the different functions in the organisation.

Private sector transition plans are becoming common and even mandatory in some jurisdictions and sectors.[v] A particular emphasis is currently being put on climate-related corporate disclosures[71] while giving limited attention to the social impact of the low-carbon transition. Incorporation of well-established social, labour and human rights standards, measures, and goals in the financial sector transition plans represents one of the options where the support from a just transition can be articulated. The report "Making Transition Plans Just"[72] by LSE Grantham Research Institute provides specific recommendations on how to embed the just transition into financial sector net-zero plans.

Consistent with the objective of putting people at the heart of the transition, just transition approaches would be most effective when developed based on engagement and consultations with relevant stakeholders.[vi] Ongoing engagement with stakeholders can contribute to fine-tuning an organisation's approach to just transition, alleviating potential negative social impacts as well as assisting with business idea generation.

It should be noted that some just transition considerations may already be adopted by banks and insurance companies and reflected in ESG and responsible business conduct practices; climate or sustainability strategies, or through alignment with sustainability-related taxonomies.

v In 2022, the United Kingdom introduced a mandatory requirement for the largest United Kingdom-registered companies and financial institutions to provide disclosures aligned with the Task Force on Climate-related Financial Disclosures (TCFD). In the EU, several regulatory initiatives in which development and disclosure of transition plan requirements are proposed, including the Corporate Sustainability Reporting Directive (CSRD), Corporate Sustainability Due Diligence Directive (CSDDD). In Australia, Treasury consultation on climate-related disclosures for large entities included a proposal for transition plans disclosure requirement.)

vi consistent with Principle 4 of the Principles for Responsible Banking (PRB)

Where the strategies, policies, and processes listed above exist, financial institutions could conduct a gap analysis, and when appropriate, enhance them by strengthening the social aspects and by explicitly referring to just transition.

Specific policies, such as human rights or stakeholder engagement policies[73] can be put in place to reflect the organisation's commitment and approach to managing particular social considerations.

> Reinsurer Munich Re has put in place a Human Rights Policy. The organisation has identified six human rights management components to make sure that that its policies and practices respect human rights along its value chain including risk assessment, monitoring, and implementation. It outlines the commitment to several international guidelines and standards, including the Declaration on Fundamental Principles and Rights at Work, the UN GPs, the principles of the United Nations Global Compact, among others.

Several UN backed initiatives such as the Race to Zero, the Race to Resilience, or Net-Zero Alliances, aim to support banks' and insurance companies' efforts in elevating climate ambition and action, or, in the case of the Principles for Responsible Banking (PRB) and the Principles for Sustainable Insurance (PSI), in promoting sustainability holistically. Participation in these initiatives is valuable for publicly demonstrating commitment and progress.

Examples of questions to consider

- What are the social impacts and implications of the climate transition on the organisation's major business lines/client segments/regions of operation/sectors covered?
- How can the organisation engage with stakeholders to understand impacts and inform the development of strategies to address them?
- What are the largest potential negative social impacts resulting from the implementation of the organisation's climate strategy? What economic effects could these negative social impacts have for the organisation?
- How can the implementation of the organisation's climate strategy be enhanced to minimise social risks? What are the potential business opportunities resulting from the just climate transition?
- Does the organisation have a Net-Zero Transition or an Adaptation Plan? If so, do these plans include just transition considerations?
- Are the organisation's commitment and actions to support a just transition referred to in the organisation's strategy and policies?

Tools and resources

- The LSE Grantham Research Institute Report **Making transition plans just: how to embed the just transition into financial sector net-zero plans** provides guidance for how financial institutions can include just transition within their corporate strategy. The report includes communication strategies and tips for various stakeholders such as corporate clients, investors, and government and sector specific considerations when adding Just Transition within financial policy.

UNEP FI Impact Protocol and tools

The Impact Identification phase of the UNEP FI Holistic Impact Analysis methodology, as described in the **Impact Protocol** and required by Principle 2 of the **Principles for Responsible Banking** (PRB) consists in understanding the impact areas and topics that are associated with the bank, based on its portfolio composition and context and determining which, among these, are its most significant impact areas.. The **Portfolio Impact Analysis Tool for Banks** is designed to facilitate the implementation of the impact methodology by banks. In particular, the Context Module and Identification Modules are used to identify the banks' most significant impact areas.

3.2 Governance

Integrating the concept of a just transition into institutional governance mechanisms is of utmost importance to effectively incorporate the social impacts of climate transition into internal decision-making and day-to-day operations while also establishing accountability.

Governance mechanisms play a vital role in defining priorities and internal incentives. This includes finding a balance between achieving sustainability and business development objectives, short and long-term risks and financial performance.

To better account for the existing interconnections and to leverage organisational synergies, it is essential to strive for coherence between underwriting and investing activities of insurance companies; between risk management and opportunity optimisation associated with promoting a just transition; as well as resolving perceived contradictions between the social and environmental goals of a just transition.

There is no need to establish a separate set of processes in order to address both social and environmental concerns in a holistic manner. Instead, banks and insurance companies can conduct a gap analysis to determine how their existing governance structures can support the implementation of their just transition strategy and bridge any existing gaps. This approach promotes a comprehensive approach to addressing social and environmental issues within the existing framework.

Obtain high-level commitment for a just transition

Senior leadership commitment is key to promoting a just transition. Securing the buy-in, endorsement, and active support of the C-suite, board of directors, and senior management is essential for shaping the institutional culture. It enables employees to understand their roles and ensures the incorporation of just transition considerations into day-to-day processes and practices.

Furthermore, communicating the commitment to supporting a just transition in internal and external statements; making it a recurring topic on board meeting agendas; and obtaining commitment to social performance standards and relevant policies at the highest level; sends a powerful signal to both internal and external stakeholders.

Securing senior-level approval for a Human Rights policy with clearly defined roles and responsibilities can demonstrate the organisation's commitment to a key social aspect, thereby contributing to promoting a just transition.

Mizuho Financial Group Human Rights Policy received approval from the Board of Directors after thorough review by the Executive Management Committee. Mizuho realises its potential to impact human rights throughout its own operations and business relationships and acknowledges the bank's capacity to influence positive change within their business partners throughout the value chain. Their Human Rights Policy underwent a revision in 2022, to review its human rights issues of the highest concern and clarify its approach of human rights due diligence. Also, they publish their Human Rights Report annually to improve transparency and enhance stakeholder communication. with the goal of establishing a value chain that upholds human rights. This endeavour not only involves ensuring employees' understanding but also fostering mutual understanding through engagement with all Mizuho shareholders and communities.

Assign clear roles and responsibilities

Managing and monitoring a financial institution's just transition as a strategic opportunity and a key risk driver requires assigning clear roles and responsibilities across all functions of the organisation, from the chair, executive and non-executive committees of the board, to members of sustainability, risk management, and other technical and cross-functional teams.

A dedicated specialised team of cross-subject sustainability experts, equipped with a clear role and a strong leadership mandate, can propel the adoption of sustainable finance practices, including support for a just transition. However, numerous functions along the internal value chain of the organisation (including business development, product development, credit and risk management as well as legal teams) should have well-defined roles and be provided with relevant training and adequate resources.

To facilitate effective communication and coordination between the board, executive management, and various teams, the responsibilities of the entities should be reflected in job descriptions and accompanied by performance objectives. Measurable targets can be made part of employee performance management systems and influence senior-level performance incentives.

Diversity, especially in terms of social groups, backgrounds, and gender, is another vital element that enhances the organisation's capacity to comprehend and champion a just transition. Diverse teams are linked to a stronger commitment to climate goals, increased productivity, and higher levels of innovation, outperforming more homogenous teams.[74]

- Women-led companies are more likely to commit to climate goals and take steps to curb emissions, demonstrating better results for environmental, social and governance indicators as assessed by sustainability rating providers.[75]
- Racially diverse teams are more likely to raise concerns about potential inequities in business processes,[76] making them better equipped to recognise different perspectives of just transition.
- People with disabilities also bring unique perspectives, fostering innovation in accessibility and collaboration which can contribute to boosting company competitiveness.[77]

Build capacity within the organisation

It is important to assess the organisation's skills gaps and bolster internal capacity for a just transition, both horizontally and vertically: spanning from the board through to everyone involved in delivering on the just transition strategy. Training should be adapted to, and differentiated based on, the specific needs of different teams and roles within the organisation.

Relevant topics can be introduced as part of the organisation's learning and development strategies and through targeted training on topics such as:

- The nexus between climate transition and social risks, and just transition principles;
- Social and environmental impacts relevant to the organisation's operational context;
- Human rights, social and labour standards;
- Gender equality, financial inclusion and human-centered product design;
- Country and sector-specific transition dynamics and priorities; their impacts, risks, and opportunities;
- Communication of environmental and social risks to clients; and
- Public sector funding initiatives and mechanisms and blended finance.

Training content should facilitate the development of practical skills which can then be applied within commonly occurring scenarios to advance the organisation's just transition objectives.

Where in-house technical capacity is not yet available, it can be complemented with external expertise on a permanent or an ad-hoc basis, to facilitate knowledge transfer to internal teams.

In particular, board and executive management support needs to be based on shared understanding and relevant expertise, which can be achieved by:

- Briefing the board and the executive team about social aspects of climate transition, potential risks, and opportunities for the business.
- Engaging with risk, audit, nomination and remuneration, and other relevant committees to embed relevant just transition considerations in their objectives and agendas.
- Presenting just transition-related issues as part of ongoing and strategic discussions.
- Complementing in-house capabilities with external expertise and establishing ad-hoc or permanent advisory bodies.
- Acting on board diversity, inviting stakeholder perspectives in internal meetings, or taking leaders to the field.

The ING Supervisory Board's ESG Committee, which includes at least one member from each of their other Supervisory Board committees, assists the Supervisory Board with matters relating to ESG, including the development and integration of ESG across the company and its strategy, monitoring and advising on relevant ESG developments. In addition to the regular meetings, in the first half of 2023 the ESG Committee participated in a full day of climate-focused training, which included deep-dives on climate change, biodiversity and sustainable finance, as well as a session focused on social pillar of ESG, which included deep-dives on topics around financial health and inclusion, human rights and Just Transition.

Rand Merchant Bank (RMB) has established a Transition Steering Committee to embed transition and just transition principles across all business units. The steering committee encompasses members from different parts of the bank, with both technical and financial expertise, its work focuses on identifying and assessing both the risks and the opportunities arising from the energy transition. The outcomes of the Steering Committee aim to innovate and create solutions for clients to achieve their decarbonisation objectives and incorporate just transition elements as part of their broader sustainability strategies.

Set up effective execution and monitoring mechanisms

To ensure effective implementation and promote accountability, it is important to streamline the internal information flow and clearly establish milestones for achieving the identified just transition-aligned objectives, as well as to create adequate monitoring mechanisms.

BNP Paribas has established a Network of Experts in Sustainability Transitions (NEST) Coordinating Team. This internal network brings together over 700 sustainable finance experts from all BNP Paribas business lines and functions, by pooling their expertise to support the transition of Group clients. A subgroup of experts of different business lines was created to specifically investigate the just transition concept and possible applications, launching already a first white paper on just transition and use-cases.

In addition to appointing just transition champions, financial institutions can also take advantage of institutional knowledge and synergies between the teams involved in various operational areas by building a cross-functional community of internal sustainability and business experts. The context-specific nature of just transition underscores the importance of cross-geography collaboration and reliance on regional offices for sourcing local knowledge, establishing partnerships and implementation of place-based strategies. Strengthening the organisation's internal sustainability network through regular engagements such as seminars, webinars, and learning events covering relevant social and environmental aspects is essential.

Existing management and monitoring systems can be strengthened to enhance the institution's ability to deliver on their just transition strategy. Internal communication processes should include provisions for incorporating relevant just transition considerations and feedback routes between all the teams involved in the execution of the just transition strategy, outlining escalation criteria and procedures. Furthermore, IT systems are particularly important for delivering efficiency gains by ensuring that social considerations form an integral part of the financial institutions' internal information exchange processes.

Audit committees commonly support the board of directors in carrying out their corporate governance responsibilities, which include supervising internal control systems and financial and non-financial reporting, such as climate-related disclosures. Incorporating the social aspects of a just transition into this same process can have a significant impact on how risks to individuals and society are understood and communicated.

Examples of questions to consider

- Does the board and the senior leadership have expertise and knowledge of the social risks and impacts of the climate transition? Is there evidence that social aspects of the institution's climate strategy receive enough time and attention on the board agenda?
- Does the board seek insights from experts, the workforce and affected stakeholders, as appropriate, to inform discussions and decisions?
- How can the composition of the board and organisation of committees be improved to promote integration of various stakeholder perspectives in internal decision making?
- What organisational changes can improve anticipation and management of social risks and opportunities associated with the climate transition? What changes are required to de-silo management of climate and social aspects of sustainability? Where are additional resources required?
- Do dedicated and cross-functional teams have sufficient awareness of social risks, impacts, and opportunities of the organisation's activities and, in particular, its climate strategy? Are they sufficiently involved in developing climate strategy?

Tools and resources

- **The WEF Chairpersons Guide to a Just Transition**: focused on corporate boards of real economy actors, outlines principles for effective climate governance including various just transition considerations.

UNEP FI Impact Protocol and tools

Some elements of governance, such as roles and responsibilities, and monitoring mechanisms are included in the **Impact Protocol** and in the Assessment Modules of the **Portfolio Impact Analysis Tool for Banks**, in particular in the measurement and assessment of the bank's practice and in the action plan section.

3.3 Implementation

3.3.1 Implementation in banking activities

Banks have several key avenues through which they can actively promote a just transition including as a part of their sustainability strategy and day-to-day operations:

- **Increasing Capital Supply:** aligning their practices and allocating capital towards projects and activities aligned with a just transition objectives and engaging in strategic partnerships with like-minded organisations and institutions, thereby leveraging collective resources and expertise.
- **Boosting Capital Demand:** contributing to the development of scalable, financially viable projects that align with the principles of a just transition by offering advisory services to businesses seeking to develop just transition projects; assisting them in identifying complementary funding sources and attracting investment; and educating clients on the long-term benefits of investing in a just transition.
- **Improving Financial Inclusion:** developing innovative, appropriate, and accessible financial products and services that cater to the needs of the groups affected by the transition, thereby empowering them to participate in and benefit from the just transition.

Alignment of a bank's client and products portfolio with just transition objectives can be achieved by embedding just transition considerations both in products and solutions the organisation offers, as well as by reflecting relevant considerations in internal processes, so that the existing and new portfolio does not unintendingly exacerbate the negative impacts of the transition, particularly within vulnerable groups.

3.3.1.1 Product offering and product development

Assess client exposure to just transition-related risks and opportunities

Understanding the impacts of climate mitigation and adaptation measures on existing client groups and vulnerable populations in the regions where the bank operates can unveil opportunities for product development or enhancement. Mapping the prevalent transition dynamics that client groups are exposed to and their potential financing needs as a starting point for developing adapted products and solutions, and as way of promoting positive outcomes without exacerbating existing inequalities.

Consider:

- The composition of the client portfolio (including retail and SME, corporate and business banking, along with the range of products and services offered);
- The sector exposure of the portfolio (and the prevalent transition dynamics);
- Place-specific transition impacts, just transition priorities, and local initiatives;
- Socio-economic characteristics of clients and the implications of the transition on affected groups and vulnerable populations within the context in which the bank operates.

Develop products and solutions to provide financing for just transition

Drawing on the insights from client assessment allows banks to tailor their products and solutions to respond to the local context and specific social impacts of climate transition, addressing the associated financing needs and promoting financial inclusion.

Relevant just transition considerations can be integrated into their existing product offering, for example, starting with green finance. While green finance intentionally targets climate objectives, the products may fail to consider the social impacts of climate transition. On the other hand, introducing green elements in products and solution targeting positive social impact is another avenue for exploiting synergies.

The integration of just transition considerations into product offering can include making green investments, such as renewable energy, more accessible; acquisition of new technologies, such as electric vehicles, more bearable over time; mortgages for improving energy efficiency or renovations more attractive; empowering local small businesses and supporting place-based just transition priorities by improving liquidity access for community, local and regional financial institutions.

Product specifications, eligibility criteria, financing conditions and distribution strategies can all be aligned to support the objectives of a just transition. Adhering to social performance and financial health standards can also contribute to managing the risks to individual and corporate clients, ensuring that financial products and services are not only accessible but also truly beneficial for vulnerable groups.

In addition, innovative solutions can be put in place to support the funding needs of existing and new client groups. Examples of just transition-related funding needs per client segment and associated considerations are outlined below in Table 4.

Table 4: Examples of just transition-related funding needs

Corporate clients and project finance
Examples of funding needs
▪ Capital investment in renewable energy, energy efficiency technologies, sustainable infrastructure, adopting a circular economy approach, and scaling up resilience measures and nature-based solutions, to protect assets and operations from climate risks. ▪ Early closure and repurposing of high carbon infrastructure and assets. ▪ General purpose transition finance for companies in high-emitting, hard-to-abate sectors to support their transition to net zero. ▪ Financing needs for workforce transition, including upskilling, reskilling, redeployment, and social protection benefits. ▪ Compliance with social and environmental standards and regulations.
Examples of associated just transition considerations
▪ Awareness among corporate actors of the relevant regulatory requirements, environment and social performance standards, existing and new technologies, and complementary funding sources they can rely on. ▪ Awareness of the social impacts of operations. ▪ Awareness of best practice approaches to manage social and environmental risks and impacts, including how to incorporate stakeholder engagement within their processes. ▪ Capacity to develop company just transition plans. ▪ Capacity to develop just transition-aligned projects and apply for complementary funding mechanisms. ▪ Availability of green skills to support the low-carbon transition.

BBVA has created a sustainable loan aligned with a just transition. In 2019 Iberdrola signed, with BBVA acting as lead arranger and sustainable agent, a new EUR 1.5 billion multi-currency syndicated credit facility linked to sustainability criteria. The conditions of the facility are linked to the fulfilment of two sustainability indicators validated by an independent firm. The first one relates to the promotion of universal access to energy (SDG 7.1) and the second one is related to development of new renewable assets (SDG 7.2). By factoring in both social and climate indicators, the transaction promotes a just transition.

A decentralised zero-carbon energy system based on energy communities can provide an effective solution by leveraging local actors and relying on natural resources to cover local energy needs and keeping individual investments affordable. Profits generated by these projects are typically reinvested in the community thereby providing wide societal benefits. However, local actors need to be empowered and take ownership of renewable energy production. Community energy projects, just like traditional projects, run through different stages in their lifetime, and each stage comes with specific needs, including financing. **Triodos Bank** works with small and mid-sized community-based projects that other banks might fail to consider. In 2022 Triodos Bank United Kingdom has provided GBP 3 million of new senior debt alongside over GBP 500,000 from a community bond offer to help bring a solar farm in Shropshire, United Kingdom into 100% community ownership. The solar park was originally commissioned in 2016 by a commercial renewable energy company, then brought into part-community ownership including through short-term investment from a social investment fund. The new bank debt and community bond finance enables the repayment of the short-term loan, bringing the solar farm into long-term community ownership. The solar farm, owned by a not-for-profit community benefit society governed by local volunteer directors, has the capacity to generate renewable electricity enough to power 825 homes each year.

Capital markets
Examples of funding needs
▪ Financial instruments promoting combined positive environmental and social impact ▪ Decarbonisation advice and transition finance solutions ▪ Blended finance solutions
Examples of associated just transition considerations
▪ Cost of capital for innovative activities perceived as high risk ▪ Lack of transparency and historic and comparable data on social aspects of a just transition ▪ Lack of standardisation of definitions and measurement approaches

Électricité de France (EDF), the France-headquartered energy utility company active in areas of electricity generation, transmission, distribution, energy supply and trading and energy services, the world's first corporate social hybrid bond in 2021, targeting positive impact on supply chain job creation. The bond, as outlined in the company's Social Bond Framework, aims to connect the social impact of EDF's capital expenditure and the objective of maintaining a low-carbon asset base, aligned with environmental targets. The proceeds of the bond support eligible social projects, including financing or refinancing capital expenditure contracted through the SMEs which contribute to the development or maintenance of EDF group's power generation or distribution assets in Europe and the United Kingdom, thus generating local employment opportunities. This issuance is consistent with the commitments and the CSR strategy of the Group in relation to the responsible development of local areas and the development of industrial sectors. Active bookrunners on the bond are CA CIB, Intesa Sanpaolo, ING, JPMorgan, Morgan Stanley and NatWest Markets.

Thanks to the extensive knowledge of ESG concerns that investors and other stakeholders, such as clients, regulators and ESG rating agencies may have, banks are well positioned to advise clients in such areas as benchmarking sustainability performance, integration of ESG factors in business strategy, ESG disclosure and rating processes, and structuring financial instruments to incorporate just transition KPIs, thereby allowing them to gain the best market access. **Santander** joined the Financing Just Transition Alliance and mentions just transition as one of the priorities of its responsible banking strategy. Its Corporate & Investment Banking division created a dedicated team to boost its offering in the area of ESG solutions. This global team partners closely with product teams across the platform to support clients by providing strategic solutions as well as product and financing structures tailored to specific industries, geographies and market sectors, helping in transition towards more sustainable business models.[78]

In 2021, **Bank of America** set a goal to mobilize and deploy USD 1.5 trillion in sustainable finance capital by 2030. Aligned with SDGs, USD 1 trillion is dedicated toward the transition to a low-carbon economy and USD 500 billion is allocated for inclusive social development. Through this commitment, the bank aims to advance the environmental transition across sectors and geographies, including solutions in energy efficiency, renewable energy, sustainable transportation, resource efficiency, sustainable water, and agriculture as well as improved forestry and pollution control measures. An example of Bank of America transactions to finance a just transition and social sustainability is three Equality Progress Sustainability Bonds for USD 2 billion each to mobilize capital for racial and gender equality, economic opportunity, and environmental sustainability.

Rand Merchant Bank (RMB) has prioritised the development and implementation of transactions with a social focus which align to the principles of the just transition. As a bank based in and working throughout Africa, the just transition priorities differ for each country, and core to RMB's approach to product development is customising solutions that address the relevant social priorities or mitigate impacts that arise from the transition. A multi-disciplinary team with expertise in climate, and social factors, including investment banking, works with clients and key stakeholders to ensure that the social elements of a transaction are material and impactful for the target population. RMB's prioritization of social loans and KPIs in sustainable finance instruments is demonstrated through the execution of Africa's first gender-linked bond and a sustainability-linked bond, for the Development Bank of Rwanda, which is the first to be issued globally by a national development bank.

SMEs
Examples of funding needs
▪ Start-up financing for green and enabling technologies, and innovative business models, including circular ones. ▪ Energy efficiency and business resilience improvements of physical assets. ▪ Equipment and technology allowing to decarbonise operations, including electrification of means of transportation. ▪ Financing needs for workforce transition, including upskilling, re-deployment, and social benefits.
Examples of associated just transition considerations
▪ Affordability of credit solutions. ▪ Access to finance for underrepresented populations and women, and groups affected by the transition. ▪ Awareness of SMEs of regulatory requirements, environment and social performance standards, existing and new technologies, and complementary funding sources they can resort to. ▪ Capacity needs to develop just transition-aligned projects and apply for complementary funding sources.

BBVA Microfinance Foundation (BBVA MF) has products and services for the adaptation of small farmers to climate change, such as credits designed within the framework of the Microfinance program for ecosystem-based adaptation (MEbA) with German cooperation and the United Nations Environment Program and those created with the NGO water.org to facilitate access to clean water and adequate sanitation systems. Along these lines, BBVA MF entities also offer microinsurance to small rural and urban entrepreneurs to face natural catastrophes and adverse climate risks, including a parametric one against extraordinary climate phenomena (excess rain, droughts or earthquakes) and whose payment is automatic when the event that is monitored by satellite is recorded without the insured having to claim. Currently more than 150,000 entrepreneurs with limited economic resources have climate insurance.

Retail customers
Examples of funding needs
▪ Green home mortgage and retrofitting ▪ Energy efficiency improvements and climate resilience measures ▪ Education and training to develop green skills for low carbon activities
Examples of associated just transition considerations
▪ Affordability of credit solutions for low-income customers, affected populations and vulnerable groups. ▪ Financial inclusion and health, particularly in regions strongly affected by climate transition dynamics (examples of such regions are the "energy communities" define in the United States of America Inflation Reduction Act (IRA)). ▪ Awareness among retail customers of available clean technologies, retrofitting subsidies and complementary funding sources they can take advantage of. ▪ Need for flexibility of repayment terms and/or grace periods to support customers affected by climate events.

Nationwide Building Society is the largest building society and a top-three provider of mortgages in the United Kingdom. With residential properties producing around 16% of United Kingdom emissions, Nationwide aims to contribute the United Kingdom net-zero targets by incentivising its mortgage borrowers to make green home improvements and retrofit properties. Nationwide increased its support for mortgage borrowers by reducing the interest rate on Green Additional Borrowing products, enabling up to 5000 households to borrow GBP 5,000–GBP 15,000 up to a maximum of 90% Loan-to-Value at a 0% rate across the initial 2- or 5-year product term. The loan must be used to fund non-structural, energy-efficient home improvements, such as solar panels, air source heat pumps, window upgrades, boiler upgrades, cavity wall insulation, loft insulation or an electric car charging point.[79]

BNP Paribas My Sustainable Home initiative aims to decarbonise residential real estate by focusing on increasing awareness and providing information and services on energy efficient housing and home renovation measures, relying on customer advisers and digital channels. Beyond enabling all customers to find the subsidies and grants available to make their homes more energy efficient, the initiative also helps for instance young people in Italy and first-time buyers in Belgium to identify accessible and affordable lending solutions, thus guiding clients through the maze of green renovation regulations.

3.3.1.2 Internal operational processes of banks

Embed social and environmental considerations in banks' due diligence and decision-making

Pre-investment screening, risk categorisation, due diligence, monitoring and risk management and engagements processes, all play a vital role in identifying client or project-specific risks and opportunities, allowing financial institutions to integrate the information gathered in credit decision, client and risk management processes.

Assessing the positioning of individual clients with respect to the transition dynamics they face and their willingness and capacity to address sustainability challenges and opportunities provides an additional perspective. This approach contributes to a more comprehensive understanding of the sustainability of clients' operations and the financial and non-financial risks they encounter and present and creates a foundation for more concrete and mutually beneficial conversations with clients.

Beyond uncovering pre-existing risk factors, additional impacts may materialise during the client relationship phase. Therefore, it is essential to stay abreast of the evolution of client exposure to both social and environmental risks.

By consolidating client-level data, an organisation can grasp and manage its overall exposure to just transition-related risks. This aids in identifying financing needs, pinpointing product and business development opportunities, refining the organisational strategy, and monitoring progress toward predefined targets.

Relevant social risk factors associated with climate transition can be embedded in existing risk and sustainability management processes in a holistic manner, including by:

- Embedding relevant sectoral, location or client-specific social and just transition considerations into due diligence questionnaires, credit and risk assessments, and monitoring templates and reports;
- Periodic re-assessment of the risks identified at the pre-investment stage; monitoring changes in company or project circumstances and execution of agreed-upon action plans;

- Putting in place mechanisms to assess and respond to potential serious social, labour and human rights incidents identified within the portfolio, and ensuring support to the incident resolution when appropriate; and
- Reflecting relevant information in internal communication, reporting, risk management and engagement processes. Setting up efficient internal information-sharing mechanisms and feedback loops allows financial institutions to benefit from organisational knowledge synergies, including integration of social factors in risk monitoring mechanisms and alert systems to stay abreast of evolution of sector, location or client-specific risks and emerging sustainability controversies.

In 2022 Environmental Sustainability report **Lloyds Banking Group** identified "Failure to ensure a Just Transition" as a key climate risk facing the Group. In 2021 the group reviewed the conduct risk framework to ensure its ability to identify and mitigate the risk that customers, including those who are vulnerable, experience poor outcomes as a result of the response to the transition required to achieve a low-carbon economy. The review led to updating group's climate risk policy and guidance documents.

Internal activity-specific and sector-specific policies, which often steer processes within banks, will be a key implementation route for banks to deliver on climate commitments. Both existing as well as innovative economic activities that have emerged as part of the solution to the energy transition, may contain social sensitivities arising within clients' own operations or in the supply chains, which may necessitate the development of specific guidance.

SMBC Group developed its approach to transition finance, generally understood as finance intended to decarbonise entities or economic activities that are emission-intensive, which may not currently have allowed-emission substitutes but which are important for future economic development.[80] The Group's "Transition Finance Playbook," documents internal definitions as well as the internal procedures for identifying and assessing transition finance transactions.

The Group's approach is underpinned by four principles: do no significant harm; no carbon lock-in; best available technology; and just transition—and differs between project, general purpose corporate finance and the use of proceeds instruments. Aligning with just transition considerations, the playbook outlines that investments should maximise social and economic opportunities, which can be achieved by means of consultations with impacted groups. Additionally, the Group assesses the extent to which the project or its main sponsor addresses employment-related issues stemming from the project's implementation.

The HSBC Energy Policy forms part of the bank's suite of sustainability risk policies and covers oil and gas, hydrogen, power generation, nuclear, renewables and hydropower, biomass energy and energy from waste activities. The policy explicitly mentions support for a just transition in its objectives. It further outlines the commitment of the bank to engage with oil and gas and power and utility clients around the formulation of transition plans and to assess clients transition plans' considerations of just transition principles alongside their decarbonisation commitments.

Barclays has developed and implemented approaches to identify and monitor social risks and impacts across various sectors involved in the climate transition. The bank has introduced a Client Transition Framework[81] designed to assess clients' alignment with the bank's emissions targets, sector benchmarks, and the credibility of clients' transition plans. As part of a pilot assessment, the bank is evaluating whether clients' efforts to decarbonise align with the principles of a just transition. This includes consideration of adverse impacts on stakeholders resulting from their activities, such as job loss or loss of tax revenue, as well as the inclusion of actions to mitigate these impacts, such as upskilling, adjustments in remuneration, and psychological support. Additionally, the pilot assesses whether impacted stakeholder groups are involved in decisions that affect them.

Client screening processes, and the environmental and social risk categorisation derived from it, determines the level of scrutiny required during the due diligence process. Generic and location-based or sector-specific just transition considerations can be included in client screening processes to determine whether the transaction is aligned with relevant national and international norms and regulations, organisational values and sustainability ambitions, and to estimate the level of social and environmental risk presented by the clients' activities.

Policies and exclusion lists can specifically refer to general or sector-specific social risks and prohibited practices such as child and/or forced labour, and to violations of human and labour rights. Exclusions lists of development finance institutions (DFIs) can provide initial guidance to be adapted to the operational context and the transition dynamics faced by the bank.

BBVA's E&S Framework incorporates generic as well as sector-specific human rights and other social considerations, applicable to all sectors covered by the framework. The general exclusions cover, among others:

- Clients for whom the bank has sufficient evidence that they incur in material violations of applicable human rights laws and regulations, or that are involved in human rights abuses, regardless of whether such involvement violates local legislation in each country.
- Clients for whom the bank has sufficient evidence that child, forced labour or human trafficking—as these concepts are defined in the ILO Conventions—are being used.
- Projects involving resettlement or violation of the rights of Indigenous or vulnerable groups without their free, prior and informed consent.
- Projects that put UNESCO World Heritage sites and biosphere reserves, Ramsar-listed wetlands, Alliance for Zero Extinction sites, protected areas according to International Union for Conservation of Nature category I-IV sites at risk, and Key Biodiversity Areas in addition to legally protected areas such as national parks and wildlife reserves.

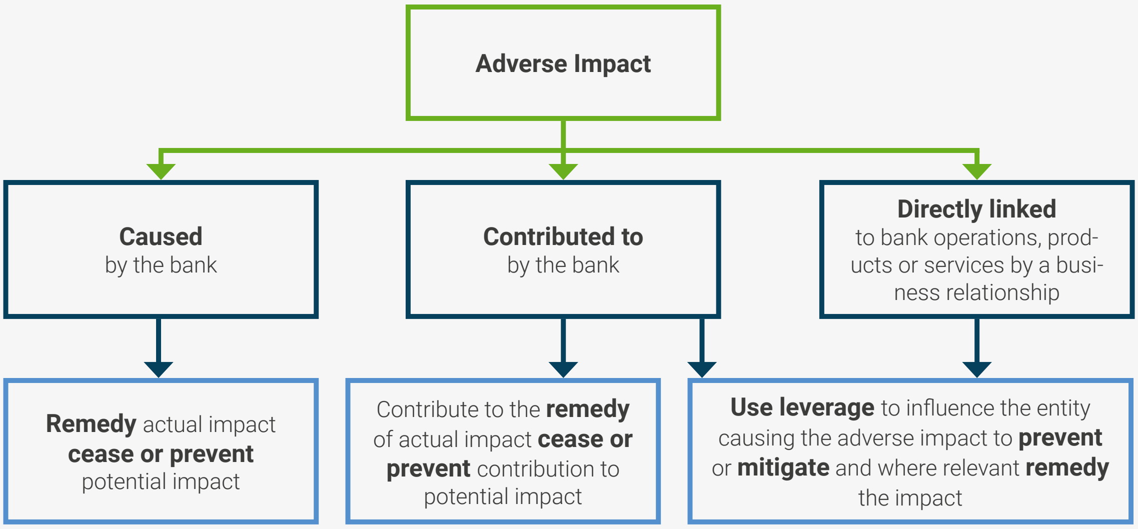
Based on the information included in the Know Your Client process and provided by an external ESG expert advisor, BBVA ensures that new wholesale customers do not engage in any of the excluded activities, or activities that require special attention, specifically set for the mining, agribusiness, energy, infrastructure and defense sectors.

Additional transition-related social considerations, such as the impact of the company or project on communities, the treatment of direct employees, and supply chain risks, can complement the bank's sustainability risk categorisation process, thereby improving further risk management efforts. Company and project information can be complemented by consulting public sources, such as international and non-government organisations, including workers' organisations, as well as sustainability rating agencies.

The next steps of pre-investment due diligence, as well as credit appraisal and client monitoring, build on the information gathered in the initial screening. They offer opportunities to fully capture the capacity, commitment and actions of higher risk clients to manage the identified social risks, impacts and opportunities.

As part of due diligence and ongoing client management, particular attention needs to be paid to the impacts on relevant stakeholders, affected populations and vulnerable groups.

Banks wishing to incorporate just transition principles should ensure that human and labour rights are fully integrated into their due diligence processes and broader risk management frameworks.



Source: OECD Due Diligence for Responsible Corporate Lending and Securities Underwriting

The UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the ILO MNE Declaration as well as the more specific OECD Guidance for Responsible Corporate Lending provide guidance for financial institutions on human rights due diligence.

Banks can be associated with human rights impacts by a) directly causing adverse impacts; b) contributing to adverse impacts caused by another entity; and c) through being linked to adverse impacts through business relationships.

Due to the nature of banking activities, when conducting human rights due diligence, banks are expected to seek to establish how clients and projects identify, prevent, mitigate, and account for the human rights impacts associated with their activities.

Itaú Unibanco has set up an ombudsman service with the responsibility of representing customers. Both Itaú Unibanco's inspectorate and ombudsman channels have the expertise to detect and examine actions that may infringe upon the bank's commitment to human rights.[82]

Effective due diligence processes go beyond financial viability assessments and include detailed evaluation of the potential project impacts on local communities, ecosystems, and overall contribution to a sustainable future.

Due diligence processes provide a chance to understand whether workers, communities, and other groups affected by a particular project or client's activities are effectively consulted; whether possible benefit-sharing opportunities have been explored; and if affected groups have access to client or project-level grievance and remediation mechanisms. In cases where Indigenous peoples are affected, it is important to verify compliance with international conventions[vii] and frameworks, including the right to free, prior and informed consent (FPIC).

vii Such as Indigenous and Tribal Peoples Convention, 1989 (No. 169)

Kipeto Energy, the second largest windfarm in Kenya, is situated in Maasai land. The Indigenous people that had custodial rights over the project land negotiated a 5% share in the company with the revenues going to a community trust and guarantees of minimal relocation and land title security. The long-term revenue stream, and local electricity supply is already transforming the lives of communities, while building long-term value for investors.[83]

Several green transition-enabling sectors have been associated with forced and child labour incidents, which represents another point of attention.

The ILO MNE Declaration self-assessment tool for enterprises provides a set of questions that can guide financial institutions' due diligence around labour rights and employment practices. Examples of questions for contexts where forced or child labour are considered endemic include:

- Does the enterprise have policies, procedures and/or mechanisms to ensure that the enterprise's activities are in line with national laws and regulations and the principles contained in relevant international standards?
- Does the enterprise have a policy prohibiting forced labour in its operations? Does the enterprise identify, prevent, mitigate and account for how it addresses risks of child labour, including worst forms of child labour, in its operations?
- Does the enterprise have specific procedures (such as due diligence processes) to identify, prevent, mitigate and account for how it addresses the risks of forced and compulsory labour in its operations or in products, services or operations in which they may be directly linked?
- Does the enterprise have a policy and appropriate procedures that guarantee the enterprise's respect for the rights of the workers, acting individually or jointly, to have their grievances processed pursuant to an appropriate procedure?

Additional elements to assess in connection with promoting a just transition are clients' transition preparedness and strategies, including the availability of corporate transition plans treating social implications; respect for international labour standards; direct and indirect employment impacts of the project to be financed; mitigation measures; specific gender-related implications; and provisions for local hiring and inclusion of local suppliers, among others.

Both due diligence and credit assessments are equally well-suited for the application of positive screening techniques. These techniques help identify business opportunities and pinpoint clients and transactions that have the potential to support specific just transition priorities. Examples of such can be companies and projects expected to respond to particular place-based just transition needs and stand to benefit from local transition dynamics, or which lead to an orderly and efficient transition or to the creation of quality employment in areas affected by the transition.

Sharing due diligence insights and the identified gaps in sustainability management represents a first step in client engagement, leading to developing action plans, both for mitigating the identified risks, and enhancing positive impacts towards a just transition; providing pertinent sustainability advisory services and developing dedicated financial products tailored to client's financing needs and sustainability goals.

Incentivise positive change by reflecting just transition considerations in legal agreements

The terms of legal agreements with clients provide an opportunity to seal the clients' commitments to specific just transition-aligned measures and conditions, to define the agreed-upon incentive and penalty mechanisms and to reflect appropriate disclosures and reporting obligations.

While including just transition considerations in standard clauses and templates is a starting point, customisation is essential for different client types and transactions. Collaboration with specialised teams ensures that these clauses are practical and achieve desired objectives.

Transition finance transactions, aimed at helping companies in emissions-intensive and hard-to-abate sectors decarbonise, and green finance transactions, both call for the inclusion of clauses and/or key performance indicators (KPIs) that promote positive social outcomes. This ensures that while these expenditures contribute to the climate transition, they also uphold social performance standards and address potential negative impacts on workers, supply chains, and communities, thereby minimising harm and maximising benefits for stakeholders.

Green, Social, Sustainability and Sustainability-linked (GSSS) financial instruments offer significant potential for advancing a just transition. The use-of-proceeds green and sustainability debt can be instrumental by directing funds specifically towards projects and activities that align with just transition objectives. Clauses of specific debt instruments could support compliance with minimum safeguards by referencing social performance standards. Beyond minimising risks, they could be used to promote social impact by clearly defining in the eligibility criteria activities that align with just transition objectives; and measures required to ensure that the funded projects create decent jobs, promote fair labour practices, offer training and upskilling opportunities for affected workers and populations. Social debt instruments, such as issued according to the ICMA Social Bonds and Loan Principles[84] can be leveraged to finance particular projects focusing on the social pillar not necessarily accompanied by environmental goals, such as those focusing on employment preservation and generation.

General purpose financing instruments such as sustainability-linked bonds (SLBs) and sustainability-linked loans (SLLs) are rapidly gaining popularity and are well-suited to promote environmental and social objectives of a just transition, provided the inclusion of relevant social targets. Offering the flexibility to apply proceeds to any business activity, their financial characteristics can be tied to predetermined sustainability performance objectives, incentivising the borrower to improve performance.

The necessary attributes of key performance indicators (KPIs) and sustainability performance targets, including social metrics, summarised by IFC:[85]

- KPIs must be relevant, core, and material to the borrowers' overall business, and of high strategic significance to current and/or future operations.
- Targets must be measurable or quantifiable on a consistent methodological basis.
- KPIs and targets must be externally verifiable and benchmarkable. This means using an external reference or definitions to facilitate the assessment and calibration of the target's level of ambition, to the extent possible.

Environmental and Social Action Plans (ESAPs) can serve as a legal tool in project or corporate finance particularly for large-scale transactions, to support specific just transition goals. Commonly used by DFIs, ESAPs are dynamic documents evolving at the pace of project and operating context changes. They outline measures that the client commits to implementing during the loan tenure to improve environmental and social risk management practices, including timelines, responsibilities and the criteria of successful implementation.

When developing standard conditions and incentives for green mortgage and savings products aimed at retail clients, it's crucial to ensure accessibility and affordability for low-income and vulnerable groups. This prevents exclusionary outcomes like blue-lining and promotes equitable access to these products.

3.3.2 Implementation in insurance activities

The insurance industry can actively promote a just transition throughout its activities. It can do so by:

- **Enabling business operations** of innovative low-carbon activities and technologies and incentivising behavioural change;
- **Improving client readiness** to face climate and climate transition-induced risks by improving their resilience;
- **Closing the protection gap** and extending the benefits of insurance protection, making sure no one is left behind.

To achieve these objectives, just transition considerations can be integrated throughout the insurance lifecycle: in designing dedicated solutions; introducing additional social or environmental performance standards in due diligence processes; embedding incentives or preventive measures in the existing insurance products; and adapting processes including risk assessment and claims. Although it is not the focus of this report, insurance companies should also align just transition strategies with their investment and underwriting activities.

All actors in the industry have a role. While insurers make underwriting decisions and design products and insurance processes, large-scale insurance protection—especially for climate risks—is only possible with the support of reinsurers. Insurance intermediaries, including brokers and agents, can also play a central role, by educating clients on risks, risk prevention and supporting them to find appropriate solutions. Such intermediaries are uniquely placed to facilitate discussions around environmental and social risks with clients.

Insurance sector risk transfer ecosystem

Operating on the principle of collective pooling of risks, the insurance industry contributes to society-wide risk management by spreading the financial burden of risk across many individual entities. Members of insurance sector ecosystem play different but complimentary roles in the provision of insurance.

The clients ("insured") that transfer their risks to the insurance industry can either be individuals (or groups of individuals), companies, organisations, public sector bodies, or nations. When an individual or organisation becomes a client of an insurer, the insurer agrees to pay the insured an indemnity or a corresponding benefit, if a pre-agreed event occurs, in return for the payment of a premium by the insured. The transfer of risk from the policyholders to the insurance company provides financial protection and peace of mind by ensuring that unforeseen events do not lead to major financial losses.

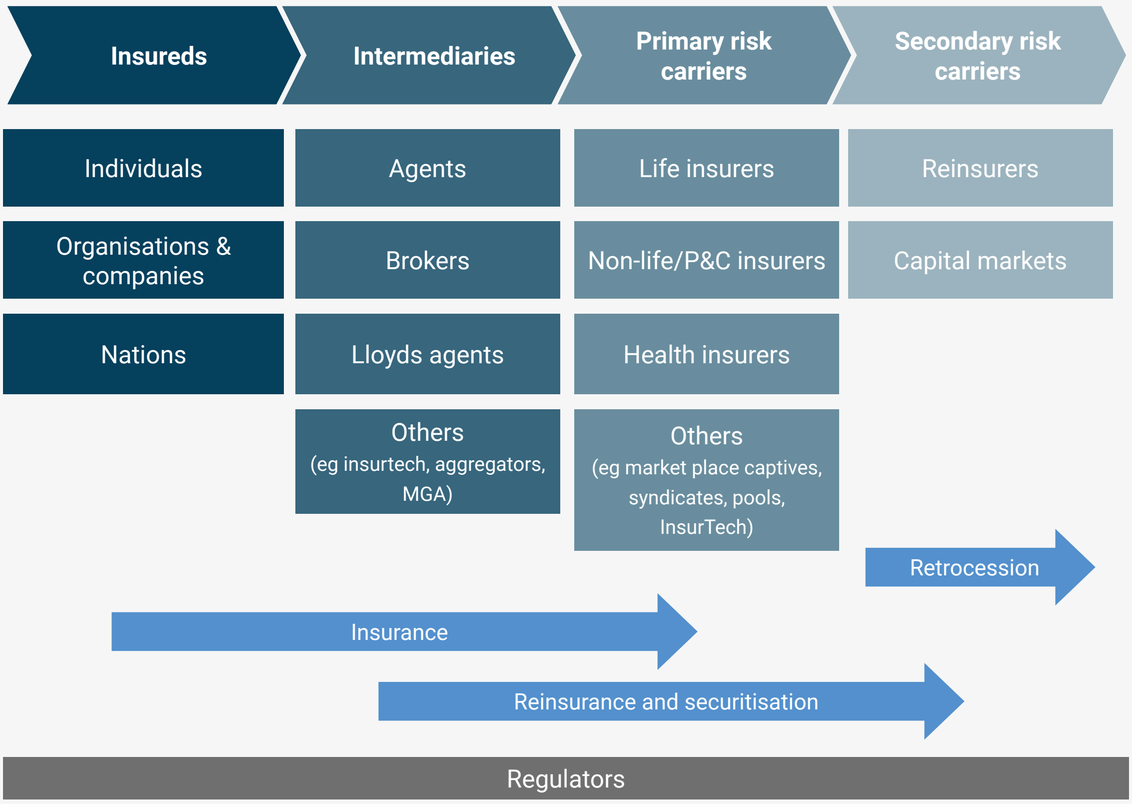


Figure 4: Insurance Ecosystem

The individuals and companies that assist with the transfer of risk between insureds and insurance companies are referred to as insurance intermediaries. These include insurance brokers, which are intermediaries that assist clients to find appropriate insurance solutions and negotiate on their behalf with insurers. Insurance agents, on the other hand, sell insurance products on behalf of one or more insurance companies.

In addition to managing risks through mechanisms including pooling, diversification and investments of premiums, insurance companies also transfer some of the risks they accept to other entities. Insurance companies can transfer risks either to other (re)insurance companies, through reinsurance, or to the capital markets by securitisation. Insurance securitisation consists in transferring of underwriting risks to the capital markets through creation and issuance of financial securities. Retrocession, on the other hand, is the mechanism through which reinsurance companies transfer risks to other reinsurance companies.

3.3.2.1 Product offering and product development

Provide insurance solutions to improve client resilience throughout the climate transition

Insurers have an opportunity to design dedicated solutions to the risks of the climate transition, supporting clients in the face of both climate risks and the negative socio-economic effects of the transition. Such insurance solutions contribute to boosting client resilience, improving their financial stability, and helps maintain jobs and livelihoods.

Weather insurance is one example. Insurers have long supported clients in the face of weather-related risks. As these risks intensify, insurers respond by developing innovative climate insurance products. When well-designed, these products can support adaptation to climate change while contributing to leaving no one behind. The importance of this activity will only grow, and insurers will be required to continue to protect clients from evolving climate risks and the social impacts associated with them. Such innovation is required across a wide range of product lines and covering all types of clients: individuals, small and medium enterprises, corporate and public sector actors.

One important innovation, increasing efficiency and accessibility of climate insurance to a larger spectrum of clients, has been the development of index agriculture insurance. For traditional agriculture insurance, a claims adjustor visits each farm that has experienced a loss to individually assess the level of loss and subsequently determine the claims payment. This is both time-consuming and costly, often making products prohibitively expensive for smallholder farmers. Index insurance, on the other hand, pays out based on a trigger being reached, such as rainfall below or above pre-established levels in an area.

Beyond insuring individuals and businesses, state-level innovative insurance solutions, vitally important to improve resilience of populations, have experienced growth, with insurers increasingly designing products to help national and sub-national governments respond to climate risks. The African Risk Capacity Limited (ARC Ltd) is one powerful example, and similar regional initiatives have been developed in other parts of the world.

The African Risk Capacity Limited (ARC Ltd) is a hybrid mutual insurer and financial affiliate of the African Risk Capacity Group (a specialised agency of the African Union).[86] ARC Ltd provides a sovereign natural disaster insurance pool which allows governments to insure themselves against the occurrence of disasters. When an insured event occurs, the insured government uses the ARC payout to launch early response activities as set out in their pre-agreed contingency plan. This allows for citizens to receive support more quickly, better protecting their livelihoods and allowing for a faster recovery. By pooling the risk, participating countries reduce the cost of insurance by as much as 50%, compared to bearing risks individually.[87]

It is important to mention the vital role of reinsurers in making insurance for large-scale climate risks feasible. Without the ability to transfer part of the risks, it would be impossible for most insurers to cover large-scale weather risks alone. Reinsurance companies' support allows for these catastrophic risks to be shared between players, making it possible for them to take of additional risks by offering insurance to their clients.

Other examples include solutions offered by insurance companies to help individuals and small businesses cope with business climate-related interruption or increasing climate-related morbidity risks, reducing their economic impact for the affected populations.

Flood and tropical storm damage has impacted 1.5 million people in the last 30 years in the Caribbean and has been responsible for over USD 5 billion in damage. Such events result in lost income, forcing low-income people to resort to coping strategies like reducing food consumption, borrowing, or taking children out of school. **The Livelihood Protection Policy** is an insurance product, developed as part of the Climate Risk Adaptation and Insurance in the Caribbean (CRAIC) project,[88] that helps protect the livelihoods of vulnerable low-income individuals in Jamaica and Saint Lucia by providing swift, unbureaucratic cash pay-outs following extreme weather events, such as high wind speed and heavy rainfall. In addition to small-holder farmers, one of the key groups targeted by the product are self-employed individuals and small-business owners, such as market vendors, hairdressers and tourism workers, whose businesses are interrupted, and incomes wiped out by such climate events.

Warming temperatures and increased flooding encourage the spread of mosquitos beyond their traditional breeding grounds, bringing the viruses they distribute to areas previously not threatened by these illnesses. In Philippines, **Pioneer Life insurance company** saw how climate change was exacerbating dengue among its mass market customers and launched in 2015 MediCash—Dengue Insurance to help families overcome the financial shocks associated with dengue. The affordable product is sold through a large chain of shopping malls and through microfinance institutions.[89]

Insurers have an equally important role in supporting clients' resilience as they face the challenges of climate change and climate transition measures.

Additional non-insurance services, offered as part of their offerings can help clients improve their preparedness and prevent or reduce risks. These can include distribution of alerts on weather risks, such as expected high rainfalls bundled with recommendations of preventive measures to protect property, allowing clients to take timely action; advice and education on managing risks that a particular target group may face and the benefits of adopting sustainable practices; and premium discounts for taking specific risk reduction measures. Supporting clients in taking such preventive measures has an additional advantage for insurance companies by reducing the claims costs they may face.

The table below outlines examples of approaches across product lines where insurance products can help clients face both environmental and social impacts of climate change and the climate transition. Some of these examples are explored in more detail throughout the paper.

Table 6: Examples of insurance products supporting a just transition.

	Contribution to environmental elements of a just transition	Contribution to social elements of a just transition
Climate insurance: Risk transfer products providing coverage for weather-related extremes, such as tropical cyclones, storms, floods, forest fires etc	Improving clients' resilience and ability to respond to climate-induced shocks in case of extreme weather events.	Improved financial stability and business continuity, jobs and livelihoods maintained.
Car insurance: Usage based insurance	Pay-as-you-go car insurance encourages drivers to be more mindful of driving habits and mileage. Premiums based on usage motivate to drive less, resulting in a decrease in carbon emissions.	Traditional fixed insurance premiums can be burdensome for lower-income individuals. Pay-as-you-go insurance offers a more accessible pricing model, where people who drive less pay less.
Climate-related morbidity insurance: Inclusive heatstroke insurance, insurance related to climate-induced epidemics and pandemics	Helping clients to recover from climate-induced health-related challenges by creating complementary financial support mechanisms for individuals and communities.	Maintaining financial resilience of populations affected by extreme heat, increased morbidity, epidemics, and pandemics, protecting their productive capacity and livelihoods.
Property insurance:	Supporting clients to manage the financial effects of damage to property as a result of climate-related events.	Allows for improved financial stability of households and businesses as they are able to withstand the costs of damaged property.
Agricultural insurance: Agricultural insurance, including index insurance designed around specific weather indices, such as historical data for rainfall or temperature	Supporting climate change adaptation by ensuring financial stability and protection in case of extreme events.	Lower transaction costs, quick and reliable financial support to farmers, facilitating faster recovery—enabling business continuity and maintenance of livelihoods; improving access to credits and investments in productive activities.
Business insurance: Business interruption insurance	Business interruption insurance can support businesses to withstand climate events which impact their operations.	Allows for business stability and continuity, in turn sustaining livelihoods in the face of climate events.
Complementary unemployment insurance:	Complementary support for businesses and individuals impacted by the climate transition	Provides support to complement state protection for employees while they search for new opportunities, or while they're working on new skills development.

Insurance for protection of natural ecosystems:[90]	Improving clients' resilience to climate-related events, such as wildfires, floods and typhoons; and improving carbon sequestration offered by nature-based solutions.	Supports financial resilience of populations affected by climate events and allows for business continuity, protecting livelihoods.

Actively support green and transition-enabling activities and socially responsible initiatives

Development and scaling up of certain clean technologies are one of the major drivers of the climate transition. Insurance companies, both in their role of providers of insurance and investors, have an opportunity to be active supporters of the companies, technologies and public initiatives, facilitating the climate transition.

As a major economic enabler, without which many activities cannot operate, insurance can play a vital role in facilitating access to finance and supporting growth of technologies and activities required for a just transition. As underwriters, the insurance sector can provide insurance cover for renewable energy projects, green technologies, socially focused innovative business models and public sector initiatives. Such activities may have an uncommon risk profile: they might generate unknown and evolving risks due to use of innovative processes, new technologies or unproven business models. For regulatory, business, trust, or other reasons, a lack of insurance can be a major impediment for operation and rapid development of these activities, which cannot go ahead, grow, or secure financing without insurance. Insurance companies, therefore, have a vital role to play by using their risk analysis expertise to understand the associated risks and design effective insurance covers.

Forthcoming research from the Geneva Association shows that the insurance industry is already taking company-level and industry-level actions to help expedite commercialisation and market readiness of a range of new climate technologies (e.g. green hydrogen, carbon removal and storage) as well as wide-scale deployment of a number of existing technologies (e.g. solar and wind power), working with a wide range of partners to scale up energy transition and industrial decarbonisation.[91] Research also reveals that insurance has an important role in scaling up the use of existing technologies, as the cases below illustrate.

HDI Global SE provides comprehensive insurance coverage for wind power plant operators through its Wind Power Plus policy. The product covers risks including theft, storm, lightning, floods, fire, environmental damage, and third-party compensation claims. The policy also covers machinery and business interruption insurance, and additional operational covers can be added according to clients' needs. The insurance improves the resilience of wind power plant operators, protecting investments in wind power, and reducing interruptions to operations.[92]

Insurance

Due to high installation and maintenance costs, solar power penetration in households remains low in Japan. To address this situation, **Tokio Marine & Nichido Fire (TMNF)** partnered with a startup company that specialises in offering renewable energy at low cost. Together with the startup, TMNF put in place a Power Purchase Agreement which enables the installation of solar power systems without initial and maintenance costs. After installation, repair costs are covered by insurance provided by TMNF. The program allows new homeowners to install solar power generation equipment without paying any upfront costs as well as ongoing repair and maintenance costs.

An important role has emerged for the insurance sector in facilitating new businesses models in the circular as well as the sharing economy. The sharing economy includes a range of businesses and platforms, which allow users to temporarily share assets, such as vehicles, property, tools, reducing the need for new purchases, carbon footprint associated with production processes and the generation of waste. However, these sharing economy activities need to be underpinned by trust as sharing may present risks to those sharing their assets, which could be damaged; to those using them, who cannot be sure they will get what they expect; and to the company running the platform, whose reputation is on the line. Insurance can play an important role in protecting all users and allowing such business models to operate smoothly.

Apartment furniture subscription models, such as offered by Pabio in Switzerland, provide a more affordable as well as more sustainable alternative to purchasing new furniture. Such models are facilitated by insurance, protecting both the company and the renter against the risk of damage to the rented furniture. Insurance coverage designed specifically for this business model allows the operations to run smoothly and ensures that business can offer a stress-free and financially accessible option for customers.

An additional, vital, role of the insurance sector in promoting a circular economy, is insurance support for the recycling sector, as collaboration between the recycling sector and the insurance industry could be a catalyst in greatly expanding recycling businesses[93] In particular, a range of risk prevention, mitigation and insurance actions, developed together with insurers, would provide greater certainty for financial backers interested in supporting the sector. The efforts to address such risks as fire for recycling activities are also important for ensuring safe working conditions and to minimising risks to communities living nearby.

The need to protect natural capital is gaining global attention as it has been demonstrated that natural ecosystems can increase resilience to physical climate risks, promoting climate change adaptation, and contribute to sequestering carbon, adding to climate change mitigation efforts. Innovative products and services, insuring nature-based solutions, can therefore contribute to enhancing community resilience to physical risks, incentivising sustainable practices and reducing greenhouse gas emissions.[94]

The Nature Conservancy (TNC), the Government of Quintana Roo, and the National Commission of Protected Areas (CONANP) worked with **Swiss Re** to establish the world's first insurance policy for a natural asset by insuring a coral reef in Quintana Roo, Mexico. Coral reefs can reduce up to 97% of wave energy before it reaches the shore, thus increasing the resilience of coastlines, businesses and communities to storms and erosion. In addition, many coastal communities rely on reefs for tourism, fisheries and sustenance. However, coral reefs can be damaged by hurricanes. The parametric insurance coverage has three key elements: the parameter (wind speed) and the threshold (e.g. 100 knots) that triggers the insurance; the geographic area concerned; the payout scheme to the policyholder. Policyholders may be planning authorities, tourism departments or environment and fisheries agencies, who may hold a legal mandate and authority to carry out reef restoration work, or private-sector hospitality and hotel chains or fisheries that directly benefit from the increased resilience related to healthy natural ecosystems. Such parametric insurance solutions support the rapid repair of hurricane damages, helping to protect and restore these biological habitats and support the communities relying on them.[95]

Careful assessment of both the environmental and social impact of these activities, companies and initiatives, is required in all cases to ensure that insurance solutions provided are consistent with promoting a just transition.

Contribute to closing the protection gap

The "leave-no-one-behind" principle lies at the core of just transition. Given the important role that insurance plays in building resilience and helping clients to manage climate and social risks, the persistent gap in access to insurance, mostly affecting vulnerable populations, represents an important challenge to a just transition.

The majority of the world's population, as well as most small businesses are uninsured. This is due to both supply and demand-side challenges, with a lack of affordable and adapted products available for low-income individuals and small businesses, as well as a lack of insurance culture, trust and education among some groups. This lack of insurance protection has significant consequences. When faced with the occurrence of uninsured risks, families are often forced into desperate coping strategies, such as selling assets, taking out high-interest loans or taking children out of school. These impacts will likely only worsen among the most vulnerable as the effects of climate change become more severe.

The annual value of this protection gap was estimated at USD 1.8 trillion in 2022,[96] representing a vast potential of business opportunities for the insurance companies.

For some time, insurers have been engaged in efforts to develop products which meet the needs of excluded client segments at a price which is accessible to them. This type of insurance is known as inclusive insurance or microinsurance. With low premiums and simplified processes, inclusive insurance can allow vulnerable groups and businesses to access vital risk protection and build their resilience.

The Landscape of Microinsurance[97] outlines six Sustainable Development Goals to which inclusive insurance contributes:

- **SDG 1—No poverty:** By reducing the financial impact of unexpected events inclusive insurance is a key tool for long-term poverty reduction.
- **SDG 2—Zero hunger:** Inclusive insurance helps farmers and small businesses in the food supply chain to become more resilient, gain access to credit, helping them to grow and sustain production and improve livelihoods.
- **SDG 3—Good health and well-being:** Inclusive insurance has a role to play in complementing social protection and facilitating access to healthcare.
- **SDG 5—Gender equality:** Women are structurally more vulnerable to certain risks and have less access to appropriate tools to manage them. Well-designed inclusive insurance products help women manage their risks.
- **SDG 8—Decent work and economic growth:** By addressing informal workers, self-employed, independent workers and MSMEs, inclusive insurance helps close the protection gap. Insurance for MSMEs supports businesses' access to credit, helping businesses and the economy to grow.
- **SDG 13—Climate action:** Inclusive insurance, as part of a broader risk management framework, helps people, businesses and governments manage the risks brought about by climate change.

Inclusive insurance is particularly relevant in the context of promoting a just transition, since it can be designed to tackle risks associated with both climate change and transition including agriculture, crop failure and food insecurity risks, health emergencies, job insecurity and property damage.

The ILO has been engaging with the insurance industry on inclusion for decades, and the ILO Impact Insurance Facility drives this work today, collaborating with industry stakeholders to test new approaches, document experiences, and promote good practices—pushing the frontier of the insurance sector's contribution to the development agenda, with a particular focus on decent work.

Insurers recognise that it is often those at the forefront of climate risks who also face high personal risks. Women smallholder farmers for example, who face the risks of crop failure, food insecurity and income loss, but also pronounced morbidity and accident risks, generally have little insurance protection or other risk-management tools. Solutions that combine climate and personal risks can be particularly powerful in supporting those most vulnerable in the climate transition.

Started in 2020, a project incubated in the Business for Inclusive Growth (B4IG) coalition, coordinated by AXA Emerging Customers, AXA Climate and L'Oréal was launched in 2021. **Insurance Net for Smallholders** (INES) is a project that aims to provide a comprehensive risk protection package (health insurance, parametric climate insurance coverage and value-added services) to smallholder farmers/pickers and their families as part of L'Oréal Solidarity Sourcing programs. In 2021, two pilots were launched in Burkina Faso with L'Oréal's suppliers, notably OLVEA and AXA's local partner Sonar for shea butter (reaching 21,000 women), and in India with Solvay for guar (reaching 2,000 farmers and their families).[98]

Hollard Zambia, an insurer that is part of the Hollard Group from South Africa worked to design a bundled solution for micro business owners to cover business and personal risks. For about 2 USD per month, business owners will have access to property insurance, loss of income protection due to health issues and loss of income protection due to death of the business owner or close family. Hollard markets it to micro entrepreneurs earning less than 2,500 USD per month and to distribute it through a partnership with a commercial bank, through its network of branches and call centre infrastructure. Before designing the product, Hollard has conducted market research with the target consumers to get insights into the financial challenges they face on a daily basis and tested product concepts with potential customers to understand if the planned benefits would address their main risks, how much they would like to pay for the product, how they would like to pay for it and, if they had a claim, how would they like to claim and in how long they would like to receive the pay-out.

Experiences in inclusive insurance, including those supported by the ILO, have shown that such products must be carefully designed based on an in-depth knowledge of the clients and adapted to target group circumstances. They must be simple to understand and to govern, with clear and limited exclusions and costs adapted to customers' ability to pay. Supporting processes, particularly claims, should also be optimised, including documentation requirements to match the capacities of target customer groups.

Innovative approaches can allow insurance companies to reduce the associated costs, to ensure that these products offered yield high value while being offered at the lowest premiums possible.

Digital technology has an important role both in reducing costs and facilitating outreach for inclusive insurance: increased access to mobile phones and internet in emerging markets has provided new opportunities for insurers to reach potential customers. Digital tools can facilitate various insurance processes, including sales, customer education, claims analysis and payment, among others. Such processes can be more convenient for traditionally underserved groups, particularly for rural customers, low-income households, women, individuals with disabilities, and can ensure that standard, accurate information is conveyed. In addition, digitalisation opens opportunities for incentivising risk prevention and empowering customer decision-making, such as via tailored weather alerts in agricultural insurance products, enabling customers to take informed preventive measures, contributing to a more resilient and sustainable approach to risk management.

Whether sales and other interactions are conducted virtually or in-person, to build trust and empower customers to build their resilience, there is an imperative for them to be done responsibly and transparently and include an educational component allowing customers to make informed decisions.

Other possibilities for reducing costs in inclusive insurance include group offering, in which groups of people, such as members of a cooperative, are insured together, reducing the risk of adverse selection by the insurance companies and typically allowing for lower premiums. There is a risk of insurance prices rising to reflect higher risks and low-income and vulnerable customers being priced out of insurance.

3.3.2.2 Internal operational processes of insurance companies

Embed social and environmental considerations in due diligence and decision-making

Insurers play a vital role as economic enablers. Large businesses, projects and sectors depend on insurance protection to be able to operate and often require it as a condition to secure funding from investors.

The policies that insurance companies put in place for deciding which clients and projects to underwrite can therefore have important consequences on businesses. This influence has already been seen in coal, for example. As numerous insurance providers have taken the decision to stop insuring coal, the industry is facing an increase of up to 40% in insurance premiums,[99] while some controversial projects have had difficulties securing coverage at all.

Sustainability, sector and underwriting policies of insurance companies lay out particular areas of concern and ESG factors the company uses in making underwriting decisions. It is important that a full range of social and environmental risks relevant to a just transition are considered in pre-underwriting assessments and decision-making. In addition to the environmental factors, these might include social elements, such as: red flags in case of human and labour rights violations in client's operations or in its supply chain; assessment of human resources and occupational health and safety practices; existence of policies guiding human rights due diligence; questions around impacts on vulnerable groups and evidence of meaningful stakeholder engagement and social dialogue, among others. While these aspects are central to achieving a just transition, they are also important to insurance companies' ability to assess risks associated with a particular contract.

Where concerns are identified, engagement with the clients could, in some cases, lead to agreeing on action plans to address the problems identified that can condition the renewal of the insurance cover.

> Ongoing assessment of both environmental and social risks is important, especially for large products which are insured. The following example from **Munich Re** illustrates how an insurer can intervene to improve conditions for workers on an insured project. Munich Re considers environmental and safety risks, and impacts on local communities, in deciding whether to underwrite hydroelectric powerplants. In one case, it did not identify significant issues when making the decision to underwrite a project in the pre-construction phase. However, during regular site visits during construction, safety and waste management issues were identified. Munich Re believed that these posed risks both to workers and to the future of the project. After it was unable to secure improvements negotiating with the construction company, Munich Re worked with the finance providers to jointly demand improvements. This was particularly effective because the insurance cover was mandatory for the construction company's credit lines.[100]

Increasingly, the reputational risks associated with social and environmental controversies related to their clients represent a reputational risk for the insurance company involved. A growing number of campaigns are calling out investors and insurers for their role in facilitating companies engaged in damaging social and environmental practices.

As Allianz has observed: "The once non-financial and intangible perception of ESG is increasingly evolving into a financial and tangible factor for the decisions of customers, suppliers, employees, regulators, analysts and other stakeholders."[101]

To guide insurance companies, UNEP Principles for Sustainable Insurance (PSI) developed a high-level heat map for non-life insurance companies[102] and life and health insurers[103] identifying common ESG risks. The heatmap features several risk factors and maps the level of risk across lines of insurance business. The heat map can serve as a first step and source of inspiration for developing proprietary business line-specific just transition heatmaps, tailored to the specificity of each insurer, such as their geographical location and client and sector exposure. In addition to the social criteria already featured in the heatmap, other social risks and impacts, including employment and decent work considerations, can be considered.

As major asset owners and influential investors, in addition to underwriting activities, insurance companies could benefit from organisational synergies and knowledge by designing a coherent approach to supporting a just transition covering both areas of operation. Additional information pertaining to investment activities of insurance companies can be found in the ILO-LSE Just Transition Finance Tool for banking and investing activities.

Design insurance terms and conditions to incentivise positive environmental and social change

The terms of insurance policies can be designed to drive behavioural change and incentivise clients to better manage environmental and social risks, to the extent justifiable according to risk-based underwriting principles. For example, more favourable premium rates can be provided on the condition that insureds abstain from certain activities generating social or environmental risks or improve their sustainability practices.

Such incentives can support both climate adaptation and mitigation efforts by promoting energy-efficient construction, retrofitting, or putting in place resilience measures such as installation of storm shutters or adopting sustainable practices. Beyond improving the affordability for clients and bringing about positive change, efficiency improvement and resilience building measures contribute to reducing risks and potential claims costs faced by insurance companies.

The introduction of use-based or pay-as-you-go policies in car insurance is one example of how insurance can be designed to incentivise environmentally friendly behaviour among consumers. **By Miles**, for example, is a United Kingdom start-up that offers a-pay-as-you-go car insurance product. The product was launched in the aftermath of COVID-19 lockdowns, which brought to light the unfairness of traditional car insurance policy: when a car was not on the road, the likelihood of an accident and therefore a claim was reduced, but clients continued to pay the same premium regardless of use. Distance-based pricing returns to individual motorists the insurance cost savings that result when they drive less. By Miles pay-by-mile insurance premium consists of a fixed cost that covers the car when it is not used, and an additional premium based on the distance actually driven. This incentivises clients to reduce their car use, contributing to carbon emission reduction. At the same time, such policies offer important social advantages, since traditional fixed insurance premiums can be burdensome for lower-income individuals.

The Nature Conservancy and Willis Towers Watson joined forces to demonstrate how insurance combined with ecological forest management, which reduces the risk of severe wildfires in fire-adapted forests, can reduce insurance costs significantly. The study analysed the risk reduction benefits and premium savings associated with ecological forestry for a range of parametric wildfire insurance structures in California. The findings indicate that ecological forestry practices can lead to significant insurance premium savings. For parametric insurance it resulted in 10–80% reductions across all modelled scenarios. This could cover various fire-related costs for a water and power agency or for a timber company, for example, as well as reducing the cost of traditional indemnity insurance for commercial and residential structures vulnerable to wildfires.[104]

While the use of climate adaptation measures in European non-life insurance business is still at an early stage in 2023, according to the research by European Insurance and Occupational Pensions Authority (EIOPA), such measures are already improving resilience to climate events, most often for commercial rather than individual retail clients.

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Implement sustainable and socially responsible claims processes

Another important area to consider is claims. Although many insurance policies result in a cash pay-out, in car and property insurance, insurers have a great deal of control over how damaged property is reinstated or repaired, by authorising providers for repairs or working with networks of partners to ensure that certain standards are met. This provides opportunities for insurers to provide support, train and influence their providers in adopting sustainable practices around waste management and carrying out repairs to standards that reduce environmental impacts.

Repair over replacement of damaged property represents one of the opportunities to reduce waste and carbon footprint.

Construction and demolition waste is one of the largest contributors to municipal solid waste in Canada, with 98% of insurance waste going to landfills in North America . In 2022, **Co-operators** introduced new sustainable claims options for its clients to reduce the need to replace damaged property:

- Drying-in-place: Instead of ripping out wet drywall, where it was affected by clean water, the company brings in high-powered fans within 48 hours to begin the drying process. This prevents mould, drastically lessens disturbance and inconvenience to clients, reduces environmental impact, and saves money.
- Soft contents cleaning: Instead of throwing away towels, linens, clothing, and other soft material items, special cleaning equipment can be used to return the items to their original state—or even better.

Insurers can also support customers to repair or rebuild damaged property in ways that make it more resilient and more environmentally friendly. While the following example from AXA applies to small businesses, similar approaches can also be applied to claims for personal property insurance.

AXA's Green Guarantee is aimed at small businesses, generally with revenues below EUR 20 million a year. When an insured plant of equipment is damaged and the business makes an insurance claim to AXA, the guarantee allows the business to claim for part of the additional costs of replacing them with greener alternatives that are more resilient to climate change. Businesses can claim as much as 50% of the extra cost associated with these alternatives, up to a limit of EUR 100,000, or 10% of their total claim.[105]

Some car insurers have put in place incentives for providers that re-use plastic parts rather than replacing them, where safe to do so.[106] Similar approaches have been taken to promote the use of refurbished devices or parts for electronic gadgets and household goods, such as washing machines.

Partnerships with local suppliers and supporting local social enterprises to become certified providers offer another angle for promoting a just transition by stimulating local job creation and economic development.

Include the full range of transition risks in risk assessment and modelling

Insurers and risk modelling firms should ensure that their risk assessments and risk models encompass the full range of risks involved in the climate transition. In particular, they should capture not only environmental and economic risks, but also the complex social risks associated with the transition.

Insurance companies can leverage their risk expertise and outreach to support clients and wider society to better understand and manage the risks.

AIG's risk engineering team helps clients by supporting their risk management practices and strategies to avoid preventable losses. For example, AIG risk engineers use risk modelling to identify areas vulnerable to flooding and recommend solutions, such as physical defences and emergency planning, that will provide adequate protection when flooding occurs.[107]

By modelling complex and interconnected social and environmental risks associated with climate action or lack thereof and sharing their knowledge, insurance companies can encourage risk preventive behaviour across a full range of risks and clients. Insurance brokers are an integral part of this effort and have a key role in facilitating client conversations and knowledge-sharing, including on the risks associated with climate change and climate transition and the effective risk-management approaches supporting both pillars of a just transition.

At the same time, serious pricing and affordability concerns may arise as insurance companies embed additional factors in risk models. There is a risk that insurers may withdraw from covering certain risks, geographical locations, economic activities, or price them in a way that effectively makes them inaccessible to many.

Due to the risk management concerns, some financial institutions adopt practices known as **blue-lining or underwater-lining**. This involves demarcating areas at risk of climate-related disasters such as floods or hurricanes and avoiding providing coverage, or charging significantly higher premiums, to properties located in such areas. Such climate-related disasters often have a disproportionate impact on low-income communities and the lack of access to affordable disaster insurance makes them more susceptible to losing their homes or incurring costly damages.

It is vital that a full range of stakeholders, including the insurance sector, business, and the public sector, come together to ensure that insurance protection can continue to be offered in an affordable and accessible way. Risk prevention, reduction and insurance efforts should make an integral part of the solution to slow down the rapid escalation in risks and maintain the insurability. The risk assessment and modelling capabilities of the industry can be harnessed as a tool to help society make decisions and define large-scale risk-reduction initiatives.

Examples of questions to consider

- How does the product contribute to the organisation's just transition strategy?
- Does the product, its eligibility criteria, and distribution strategy contribute to exacerbating the pre-existing inequalities for affected populations and vulnerable groups?
- How can the product be altered to contribute to reducing existing inequalities and/or support mitigation of the social impacts of climate transition?
- Does the organisation include just transition considerations in its due diligence and decision-making processes?

Tools and resources

- **OECD Due Diligence for Responsible Corporate Lending and Securities Underwriting** helps banks and other financial institutions implement the due diligence recommendations of the OECD Guidelines in the context of their corporate lending and underwriting activities. It provides a common global framework for financial institutions to identify, respond to and publicly communicate on environmental and social risks associated with their clients.
- Several resources developed by British International Investment can support banks in ensuring that both social and environmental aspects associated with the transaction are considered, including **Transaction cycle guidance on integrating E&S considerations in FIs' lending activities**.
- PRI **How to identify human rights risks: A practical guide in due diligence** provides a framework to support equity and corporate debt investors in identifying prioritising human rights risks.
- Shift Project's **Indigenous Rights and Financial Institutions: FPIC, Just Transition and Emerging Practice** paper focuses on the imperative to obtain and maintain FPIC, reflecting the importance of FPIC as a process to identify, manage and safeguard Indigenous Peoples rights to self-determination, to participation, and to their lands, territories and resources.
- **Equator Principles—Tools to enhance access to effective grievance mechanism and enable effective remedy**, intended primarily for Financial Institutions engaged in financing large infrastructure and industrial projects, support environmental and social risk due diligence, monitoring and reporting and aim to help clients and Financial Institutions to enhance access to remedy.
- **Investing in renewable energy to power a just transition: a practical guide for investors**—The guide by Business & Human Rights Resource Centre sets out the key human rights risks and impacts associated with the renewable energy sector, particularly to human rights defenders and Indigenous peoples, helping financial institution to make informed decisions.
- **Shared prosperity models & Indigenous leadership for a just transition**—The hub by Business & Human Rights Resource Centre exploring the potential of co-ownership models to reduce systemic risk to individual renewable energy projects and the global energy transition, through creating shared prosperity, centring Indigenous peoples' perspectives.
- **Council of Inclusive Capitalism Commitment Platform allows the financial institutions to explore** existence and nature of corporate sustainability commitments of clients and prospects and their alignment with just transition objectives.
- **WBA Just Transition Assessment and Climate Action 100+ Just Transition Indicator allow financial institutions to compare** just transition performance of corporate actors relative to the peers.

- Civil society organisations and their resources (such as **Renewable Energy & Human Rights Benchmark** or **BHRRC Transition Minerals Tracker**), sustainability rating agencies, internal records, and the **OECD Complaints data base** can be used to uncover and monitor the history of sustainability controversies associated with the activities of clients and prospects.
- **Driving Better Business Results with Women's Insurance** developed by IFC's Women's Insurance Program and the ILO's Impact Insurance Facility provides insurers with a six-step roadmap to build their own women's market strategy and links to tools, resources and case studies.
- PSI's **Managing environmental, social and governance risks in life & health insurance business** and **Managing environmental, social and governance risks in non-life insurance business** support insurers to align their business with ESG standards and sustainability objectives.

UNEP FI Impact Protocol and tools

The banking sector implementation can be supported by the 'performance measurement and assessment' and 'target setting' phases of the UNEP FI Holistic Impact Analysis methodology, as described in the **Impact Protocol** and required by Principle 2 of the **Principles for Responsible Banking** (PRB). The **Portfolio Impact Analysis Tool for Banks** is designed to facilitate the implementation of the impact methodology by banks. In particular, the Assessment Modules are used to assess banks' practice and performance, set targets and action plans. In addition to that, the **Corporate Impact Analysis Tool** can be used by banks to gain a cross-cutting view of the impact status and possibilities of their clients. The Tool is intended to help users manage their portfolios, meet their targets, and ultimately become more effective at managing impact-related risks and opportunities in close collaboration with their clients.

3.4 Engagement and partnerships

The scale of change necessary to meet the just transition objectives requires collective action and multistakeholder partnerships. Engagement and collaboration could help accomplish results beyond those that could be achieved by a single organisation could deliver on its own.[viii]

3.4.1 Stakeholder engagement

Consistent with the objective of putting people at the heart of the transition, banks' and insurance companies' just transition support approaches can be best developed based on engagement and consultations with relevant stakeholders.

For financial institutions, proactive and ongoing consultations can serve as a source of valuable insights, bringing in stakeholder knowledge and subject -matter expertise. They can contribute to the refinement of just transition approaches and can help identify place-based just transition financing needs, potential partnerships and generate business ideas; enhance the robustness of organisation's sustainability risk management strategies, alleviating potential negative social impacts.

Financial institutions' major social and environmental impacts mostly stem from their client and investment portfolios. Consequently, a stakeholder engagement process requires going beyond the direct employees, communities they operate in, and business relationships. It should encompass a wider range of stakeholders related to the portfolio projects and companies, including civil society organisations, representatives of communities, workers, and employers' organisations.

Stakeholder engagement strategy should rely on stakeholder mapping, explicitly identifying key engagement partners and regularly updated. They can also include the establishment of a banks or insurance companies grievance mechanisms to allow the stakeholders affected by climate transition projects that the financial institutions are involved with to raise issues directly with the financial institutions.

viii The need for engagement and partnerships has been recognized broadly as a requirement to advance sustainability, and is for instance reflected in PRB and PSI Principles. For example: PRB Principle 3 "We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals"; PSI Principle 2: "We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions: PSI Principle 3: "We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues."

Forming an External Stakeholder Advisory Group to engage with grassroots organisations and communities that are affected by climate-related risks can help financial institutions to understand their perspectives and serve clients better. In 2021 **PNC Bank** headquartered in Pittsburgh, Pennsylvania formed a National Community Advisory Council composed of 17 members who represent various segments of the community, including local executives, community leaders, non-profit organisations, and other community stakeholders to bring their voices into the conversation. The primary objective of this advisory council is to facilitate continuous guidance to PNC Bank in integrating community perspectives into their lending, investment, and service initiatives. By involving a diverse group of individuals and organisations from the community, PNC aims to ensure that their actions and strategies align with the needs and aspirations of the communities they serve.

As part of its advocacy and engagement strategy for the just transition, **Generali** carries out open dialogue with policy makers, NGOs, and companies, and balances its fossil fuel exclusion policies with considerations of social risk. A major part of this strategy, launched in 2018, focuses on energy companies heavily reliant on coal, with the aim to "accelerate their energy transition, combining climate protection with measures to protect communities and workers." The engagement process with eight coal companies based in Eastern Europe, where the Group is a key investor and/or insurer, allowed Generali to make informed decisions on whether to continue that support. It was agreed with all clients remaining in Generali's portfolio, that all insurance cover relating to coal assets would be terminated in 2022. Generali is currently expanding this to other groups of carbon-intensive companies.

Lloyds Bank (part of Lloyds Banking Group) has put in place dedicated Sustainability & ESG Finance team with a mandate to support corporate and institutional clients on their sustainability journeys, including financing their net-zero transition to maximise the benefits for companies, communities and the wider economy. As part of their activities, the bank brought together experts from academia, policy think tanks, business and finance for a landmark conference to explore the principles, processes and practices of delivering a Just Transition to a net-zero economy in the United Kingdom. Subsequent events were organised to continue to engage and consult stakeholders, whilst also launching their Just Transition Hub to share a range of Just Transition resources to support clients on their journey to net zero.

Insights acquired by financial institutions through stakeholder outreach, as part of their due diligence and credit assessment processes, can also contribute to forming a well-rounded understanding of the impacts created and the risks faced by client activities.

3.4.2 Client engagement

When engaging with clients, banks and insurance companies can accompany clients in adopting just transition-aligned practices. Routine interactions with clients, such as client on-boarding process, Know Your Customer reviews, pre-investment due diligence, and ongoing monitoring, can integrate just transition considerations.

Start the process by:

- Proactively informing clients about the financial institution's commitment to a just transition;
- Developing a clear engagement framework, outlining the organisation's expectations and escalation mechanisms;

- Defining a prioritisation strategy, focusing on clients associated with the largest potential social and environmental risks and impacts (e.g. clients in sectors strongly affected by climate transition and/or operating in sectors typically associated with higher social risks) and relevant to the organisation's business strategy.

Potential client engagement areas around just transition can include:

- Respect of human and labour rights and international labour standards, including within clients' operations and supply chains;
- Development of climate transition plans incorporating social just transition objectives and measures;
- Responsible restructuring practices;
- Importance of transparent, inclusive and direct stakeholder engagement and social dialogue; and
- Availability of grievance mechanisms.

The role of social dialogue

Social dialogue encompasses various forms of negotiation, consultation, or the exchange of information and includes representatives of governments, employers, and workers. It can take the form of a tripartite process or bipartite interactions solely between the workforce and the management. The primary objective of social dialogue is to foster consensus-building and democratic engagement among the key stakeholders in the labour sphere.

Social dialogue is one of the most important forms of stakeholder engagement that can support a just transition. It is an essential tool for anticipating and managing the effects of greening on the quality of work and employment because it enables decisions to be taken by consensus, allows new business opportunities and challenges to be identified, highlights new employment opportunities as well as needs for new skills and adaptation of existing skills.

Banks and insurance companies engage directly in collective bargaining and social dialogue when they negotiate with their employees or through sectoral collective bargaining agreements.

Beyond these direct involvements, financial institutions can play a crucial indirect role by supporting social dialogue within their client and investment portfolio.

The insights obtained through client engagement present opportunities to build stronger client relationships and position the organisation as the preferred partner. Sharing these insights can open doors to providing tailored support, developing customised advisory, financial, and risk management solutions, along with other value-added services. In support of place-based just transition priorities, financial institutions can leverage their knowledge to serve as a bridge between prospects, clients, and local just transition support initiatives, as well as complementary funding mechanisms.

The Let’s Discuss Climate: The essential guide to bank-client engagement was developed by CISL to guide banks in through steps of meaningful conversations with corporate clients about their decarbonisation plans and associated financing needs. The 5 phases of the engagement process set out in the document provide room for breaking silos between social and environmental considerations of decarbonisation strategies.

Set the scene: Establish your client’s starting point, position the bank and open up the dialogue

- Complement climate-focused assessment by social risks, impacts and opportunities.
- Clarify how the bank can support the client’s just transition journey.

Assess: Assess your client’s current position and ambitions for the future

- Climate and social risks that might have a substantive financial or strategic impact on client’s business are well understood by the bank and the client.
- Strategic and operational implications for a client are mapped and include just transition measures.

Design: Support your client to design a clear transition finance plan

- Client’s robust transition plan integrates relevant just transition measures, appropriate targets are set, metrics are identified.
- Associated financing requirements, including for social measures, have been identified and prioritised.

Structure: Structure financing solutions to support your client’s transition

- Financial solutions for client are structured taking into account social transition needs.
- The pricing of the deal reflects incentives for achieving environmental and social targets.

Review: Monitor progress and support your client and bank to further advance the net-zero agenda

- Client invests to deliver agreed climate and social targets.
- Monitoring and impact measurement integrates both climate and social considerations of a just transition.

3.4.3 Partnerships and advocacy

Partnering with various just transition stakeholders, peers, development and international financial institutions, climate funds, governments and regulatory authorities, civil society, and international organisations can facilitate change at-scale, improving the supply of capital supporting place-based just transition priorities. In addition to providing insurance solutions, insurance companies can contribute their expertise in understanding and quantifying risks to national and global conversations on how to best address and manage the multiple risks faced throughout the climate transition.

The commercial orientation of private sector financial institutions and high level of competition in the sector can prevent them from pursuing some just transition approaches. This is particularly the case to the extent that promoting a just transition may contradict the objectives of generating shorter-term financial performance. Partnering with other actors on the “spectrum of capital”, with a more explicit development mandate and better positioned to address particular just transition financing needs, can contribute to overcoming this challenge.

Mobilising private sector finance for a just transition is high on the agenda of international climate bodies, governments and is among the objectives of international and development finance institutions. The instruments they have at their disposal can contribute to crowding in the private sector in higher-risk areas, such investments required in emerging markets or innovative green technologies, while reducing the cost of funds for just transition-aligned projects; providing technical assistance and other support required just transition-related interventions, that may stay out of the scope of private sector actors.

The EIB Group—made up of the European Investment Bank and European Investment Fund—has participated in the ABS issuance by **Banco Santander**. The investment of EUR 360 million in Santander Consumo 5 securitisation fund of consumer loans issued by the bank is expected to support working capital and liquidity needs of Spanish SMEs and mid-caps, by enabling the bank to free capital and direct up to three times the EUB investment into the real economy. In addition, channel EUR 110 million in energy efficiency projects. The transaction supports the national and European targets for energy efficiency and renewable energy and helps reduce carbon emissions. The operation will also promote equitable growth and convergence between the EU regions, as more than a third of the final beneficiaries will be based in cohesion regions, where per capita income is less than the EU average.

The Blended Finance for the Energy Transition (BFET) program is a collaborative initiative with the primary goal is to mobilise over USD 1 billion from private sources to accelerate the deployment of clean, reliable and affordable energy solutions in India, Indonesia, South Africa, and Viet Nam and other emerging markets with catalytic co-funding from the U.S. government and other partners. Equitable access to renewable energy and a just energy transition are at the core of the initiative. BFET is specifically looking for partners to unlock new sources of institutional capital, such as pension funds and insurance companies, traditionally absent from financing energy transition in these regions due to their level of risk appetite.

Private sector financial institutions can further benefit from good practices and the local knowledge and expertise of local and development partners, allowing them to identify regional investment needs.

In support of place-based just transition priorities, financial institutions can leverage their knowledge to serve as a bridge between prospects, clients, and local just transition support initiatives, as well as complementary funding mechanisms.

By partnering with government agencies and other local actors around the place-based just transition priorities, such as affordable green housing projects, banks can support clients in tapping into various sources of funding while profiting from additional incentives, such as tax credits and grants.

Lloyds Banking Group[108] has a specific workstream aiming at enabling regional development to support prosperity across all of the United Kingdom regions and nations, reducing regional inequalities—one of the major challenges facing the United Kingdom thus contributing to a just transition. The group aims to meet the needs of the regions, focusing on opportunities to support housing and physical regeneration; increase regional productivity and create high-quality jobs; encourage inclusive growth by broadening economic opportunity across the community.

Examples of activities under the workstream include:

- Regional engagement with local leaders to understand their priorities, and how the Group is best placed to support these.
- Supporting regional SMEs via a range of initiatives, partnerships enhancing productivity and skills and helping the net-zero transition and supporting entrepreneurs, such as via sponsorship of the Advanced Manufacturing Training Centre in Coventry is helping to develop the skills needed for delivering the technologies of the future.
- Putting regional development plans to action, such as by supporting the University of Hull with securing green finance to invest in sustainable academic facilities and infrastructure, contributing to creating local jobs in the region due to the implementation of the green projects and supporting the university.
- Driving change through collaborations, such as partnering with corporate energy sector actors and local governments in the framework of Local Low Carbon Accelerator to find replicable solutions around deployment of energy efficiency in homes, transition to net-zero transportation.

Public-private cooperation can also contribute to addressing the phenomenon of insurance cost increase and their withdrawal from regions, e.g., due to increased frequency and severity of extreme weather events coupled with premium pricing regulation—making some markets appear unprofitable. Partnerships, such as those involving private insurers offering coverage up to a specific damage limit and complemented by government or development institutions grants-provided insurance can contribute to narrowing the protection gap,[109] extending protection who might not be able to afford it, while allowing insurance companies' continued operations.

Centre for NYC Neighbourhoods Parametric Meso-Insurance Pilot[110]

The National Science Foundation's Civic Innovations programme piloted a project in New York City (NYC) with the objective to enhance financial resilience for low- and moderate-income households facing increased flood risk due to climate warming.

A public-private partnership was set and involved the New York City Mayor's Office of Climate and Environmental Justice, reinsurance company Guy Carpenter, and non-profit organisations like the Environmental Defence Fund, the Centre for NYC Neighbourhoods, and SBP. The partnership intends to provide immediate cash assistance to low-income households affected by floods with the help of a novel parametric insurance product.

The product, designed to pay when rainfall-related flooding exceeds specific thresholds in high-risk areas with a substantial number of low- and moderate-income households is purchased by the Centre for NYC Neighbourhoods. With the funds paid out by the insurance, the Centre finances grants to address emergency needs of the affected households.

The objective of the pilot was to address the immediate post-disaster financial needs of low-income households, recognising the potential downstream impact of unmet needs. The rainfall-related flood triggers of the insurance solutions were determined leveraging a modelled footprint of the flood based on a combination of satellite data and on-the-ground sensors installed by FloodNet, a cooperative comprising communities, researchers, and NYC government agencies working to understand flooding in the city.

Catalysing industry action by engaging policymakers, peers and service providers and advocating for systems change is another area where banks and insurance companies can exercise influence. Considering that many financial institutions work across different jurisdictions, engagement with regulatory bodies, thereby promoting clarity around regulatory frameworks, can improve long-term visibility and facilitate commitments to just transition initiatives. The importance of a level playing field that supports a just transition—in which regulatory or financial pressure does not provide conflicting signals and reward high-emitting business models or irresponsible business practices—is critical.

It is important to be transparent about banks' and insurance companies' just transition policy engagements and activities. This fosters a culture of integrity in public organisations and decision-making and it makes it likely for the recommendations to be more credible, replicable, and useful.[111] For example, **Vancity**, the largest community credit union in Canada, recognises that "advocating for equity-focused climate policy at every level of government is a key component to becoming net zero by 2040". The bank discloses on their website all of their submissions to policy makers, members of councils, and others, on advocating for equity-focused climate policy

Employer and business membership organizations in the financial sector can support their members in advocating for regulatory frameworks that support just transition initiatives, raising member awareness about the importance of a just transition and disseminating best practices; facilitating shared learning as well as networking and collaborative projects in the pursuit of common goals.

Finally, financial institutions could collaborate with educational and training institutions to develop programmes tuned to the needs of the financial sector in order to better understand and operationalise sectoral support for a just transition. This collaboration can target both the future workforce and the existing workforce in the sector.

Examples of questions to consider

- Does your organisation include just transition considerations in their interactions with clients?
- Do you have mechanisms to check if meaningful stakeholder engagement, commensurable to the impacts of the project, is in place in relevant projects and businesses?
- Have you identified relevant organisations and other stakeholders to partner with to support local just transition priorities?

UNEP FI Impact Protocol and tools

The 'performance measurement and assessment' phase of the UNEP FI Holistic Impact Analysis methodology, includes an advocacy and partnerships segment, as described in the Impact Protocol and required by the Principle 2 of the Principles for Responsible Banking (PRB). The Portfolio Impact Analysis Tool for Banks is designed to facilitate the implementation of the impact methodology by banks. In particular, in the Assessment Modules there is a dedicated section on advocacy and partnerships.

3.5 Measurement and reporting

A key pre-requisite for putting in place an effective just transition support strategy, spanning from development and execution to the evaluation of its impacts, lies in the ability to measure. Metrics are indispensable at every stage, from understanding the dynamics of the low-carbon transition and their impact on financial institutions and their clients, to defining specific just transition targets to monitoring their execution. Metrics are also instrumental in defining key performance indicators and evaluating and benchmarking clients' performance, allowing financial institutions to incentivise sustainable practices.

Financial Institutions' target setting on just transition can be supported by the guidance from the Principles for Responsible Banking.[112] In line with the principles outlined, just transition-aligned targets should be:

- SMART: Specific, Measurable, Achievable, Relevant and Time-bound.
- Connected with the most significant just transition-related risks and impacts associated with the bank's or insurance company's activities, as identified in the process of impact assessment.
- Aligned with international agreements and targets such as Paris Agreement and UN SDGs; regional and national just transition priorities, such as defined in NDCs, LDCs; and place-based initiatives, such as JETPs in South Africa or Indonesia.
- Measured against a clearly defined baseline.
- Clear about potentially significant negative impacts associated with the targets and potential mitigation measures.
- Sufficiently disaggregated and context-based to allow tracking progress with respect to different affected groups and vulnerable populations, including gender disaggregated.
- Accompanies by milestones and an action plan.
- Complemented by indicators allowing to measure progress.

The integration of just transition considerations in decision-making and reporting of financial sector actors is limited by the state-of-play of sustainability disclosure frameworks. Most of the indicators that are used within the financial sector today focus on environmental aspects or on a limited set of specific social issues.

Assessing social factors appears to be more challenging due to the breadth, interconnectivity, and complexity of social matters, including wider labour-related issues; and the capacity of real economy actors, particularly the MSMEs to collect and provide data.[113] However, demand is growing among investors, civil society, regulators, and companies themselves for a wider and range of indicators, to leverage the influence of financial sector and innovative instruments to address various sustainability priorities.[114]

Although a comprehensive framework for measuring both social and environmental aspects of a just transition, and their interconnections, is not readily available at present, various social and labour aspects of a just transition are covered by several separate frameworks. They can be drawn upon to develop comprehensive systems encompassing a range of just transition factors tailored to the realities of the financial institution. In addition, there is work underway to better define metrics to measure just transition, such as, for example, metrics accounting for the quality of jobs, beyond the numbers of jobs created in the transition.

The ILO-LSE Just Transition Finance Tool compiles a non-exhaustive list of social just transition-related indicators presented in Table 7 , from which financial institutions are encouraged to select the most relevant indicators based on their particular needs and situation.

Table 7: Examples of financial institution metrics related to financing a just transition.

Process metrics—both at the level of the financial institution and at the level of client or investee-company can be used at the initial steps of measuring the progress in executing respective just transition strategies.

Examples of financial institution-level process metrics, used for internal monitoring and external reporting process:

- Total number of engagements on just transition issues with clients.
- Number of the bank's staff members trained on just transition.
- Number of employees with sustainability indicators included in performance appraisals and remuneration arrangements.
- Number of clients with published just transition plans.

Examples of client-level indicators:

Workers and suppliers

- Number of jobs created and lost as a result of the company's low-carbon transition.
- Employees earning a living wage or higher (IRIS+).
- Employee trainings and transition programs offered (GRI), including gender equity of participants.
- Operations in which the right to freedom of association and collective bargaining may be at risk (GRI).
- Existence of social dialogue mechanisms and number of consultations and meetings held.
- Non-compliance with laws and regulations in the social and economic area (GRI), including labour issues.

Communities and consumers

- Number of stakeholder consultations held.
- Incidents of violations involving rights of Indigenous peoples (GRI).
- Percentage of the procurement budget used for significant locations of operation that is spent on suppliers local to that operation (GRI).
- Energy affordability (SASB).
- Number of low-income customers served with affordable green products/services.
- Operations with local community engagement, impact assessments, and development programmes (GRI).

Outcomes metrics—measuring the results achieved by executing a just transition-aligned strategy are starting to be compiled by various actors.

Examples of financial institution or portfolio-level metrics:

- Total number of jobs created and lost as a result of actions undertaken via clients' transition plans and quality of jobs created.
- Evidence of social dialogue in clients' transition plans.

Noting that just transition is context-specific, selecting appropriate metrics for measuring its progress requires careful consideration. In some cases, metrics should be tailored to reflect the unique conditions or specificities of a local area.

Engagement with local trade unions in Japan led to development of decent work indicators tailored to the country context.

When developing decent work indicators for financial sector practitioners in Japan, the QUICK ESG Research Centre and Research Institute for Advancement of Living Standards (the labour-oriented think tank established by the Japanese Trade Union Confederation; RENGO) identified the metrics most pertinent to the Japanese working culture. Japan Decent Work 8 Index was developed with the aim of fostering engagement between investors and companies, in consideration of investors' perspectives. Traditional Japanese employment practices often require regular employees (seishain) to work extended hours and be available for geographic relocations locations. This limits their capacity to perform household responsibilities, such as child and nursing care. Consequently, lower-paid non-regular workers tend to assume a heavier responsibility for domestic duties, leading to career disparities between different types of workers. Reflecting this county specificity, Japan Decent Work 8 Index and indicators propose specific metrics tied to different types of employment. As such, this index intends to create better integration between local specificities and global expectations of financial institutions while also contributing to the enhancement of enterprise values for companies in Japan.

Consider reporting on relevant and material social considerations of a just transition alongside with climate related external disclosures, such as those governed by the Task Force on Climate-related Financial Disclosures (TCFD) and when communicating on the execution of the bank's transition plan.

The Task Force on Nature-related Financial Disclosures (TNFD),[115] provides recommendations for disclosing engagement activities with respect to Indigenous peoples, local communities, affected and other stakeholders.

The Task Force for Inequalities and Social-related Disclosures (TISFD) has been set up and is expected to develop a framework focusing on social and inequality-related disclosures, interoperable with TCFD and TNFD.

Other standard setters and regulators working on just transition in the framework of disclosure standards and requirements that may inform or directly affect the financial institutions are the United Kingdom Transition Plan Taskforce aiming to develop a gold standard framework applicable beyond the United Kingdom. The draft of upcoming European Sustainability Reporting Standards (ESRS)[116] regulations, which applies to entities subject to Corporate Sustainability Reporting Directive (CRDS), explores inclusion of just transition element and will have extraterritorial effect and implications for financial institutions outside the European Union through the third country applications provisions.

Ultimately, collaboration between financial institutions to exchange best practices and establish common benchmarks can result in the creation of industry-wide standards, making the process of measurement and reporting both more efficient and effective.

Tools and resources

Among the existing and emerging frameworks and initiatives that can contribute to embedding data just transition-relevant data within financial institution's operations are:

- **Target setting:** UNEP FI has developed several comprehensive, step-by-step guides for banks on how to set targets in different areas that can support a just transition, including **Financial Health & Inclusion**; **Gender**; **Circular Economy**; **Climate Mitigation** and Climate Adaption.
- **Financial instruments:** The updated version of the ICMA Climate Transition Finance Handbook[117] specifically references just transition and encourages issuers to outline how just transition considerations are integrated in projects and climate transition strategies as well as relevant associated social expenditures. The IFC Paper "Social KPIs Matter"[118] discusses current trends in integrating social metrics in sustainability-linked finance transactions with a development finance angle, covering the imperative for ensuring a just transition and suggesting examples of relevant social KPIs.
- **Client performance assessment and benchmarking:** existing reporting frameworks such as **GRI** and **SASB** include an array of sustainability metrics on which companies can report. Emerging frameworks such as TISFD and the ISSB upcoming projects on effective disclosure of human capital and human rights, offer promise for greater interoperability between social and environmental elements. Other frameworks such as the **Workforce Disclosure Initiative**, **Dutch Banking Association Indicators on Human Rights**, or the **Business and Human Rights Resource Center** offer guidance for assessing specific social considerations. Just Transition benchmarking exercises performed by the Climate Action 100+ and World Benchmarking Alliance can be used as additional guidance and insights on comparative performance of larger companies. The methodologies developed by the organisations can be used as a guide driving client assessment and engagement on this topic. **World Benchmarking Alliance Just Transition Methodology** sets out a selection of specific just transition specific indicators relevant for real economy actors that can guide banks' portfolio level disclosures. **Climate Action 100+ Just Transition Beta indicator** provides complementary guidance by suggesting an alternative methodology for evaluating the commitments of real economy actors.
- **Impact Measurement and Management:** The **GIIN IRIS+** impact measurement and management system includes a wide set of relevant metrics such as **Quality Jobs Indicators**.[119]

UNEP FI Impact Protocol and tools

The Performance Measurement and Assessment phase of the UNEP FI Holistic Impact Analysis methodology, as described in the **Impact Protocol** and required by the Principle 2 of the **Principles for Responsible Banking** (PRB) consists in measuring and assessing the state of the bank's impact performance vis a vis its most significant impact areas/topics as a basis for establishing meaningful targets and action plans. The **Portfolio Impact Analysis Tool for Banks** is designed to facilitate the implementation of the impact methodology by banks. In particular, the Assessment Modules enable banks to measure and assess their portfolio's current practice and impact performance, and to determine targets and action plans accordingly.

Afterword

As the momentum for supporting a just transition continues to build, additional support and resources will be required to gauge the real-world impact as financial institutions advance on this pathway.

For further guidance in this transformative journey, financial institutions and their stakeholders are encouraged to explore additional resources and collaboration opportunities with the ILO Social Finance Programme and UNEP FI. Both organisations are committed to assisting the financial sector as it forges its distinct path toward a just transition.

By fostering collaboration and sharing knowledge, the finance sector can collectively advance towards a future that not only safeguards its own interests but also contributes to a just transition.

For any feedback on this report, please contact our team. This report is available at UNEP FI and ILO websites:

Annex 1: Illustrative examples of impacts on stakeholder groups

Non-exhaustive list of examples of potential transition impacts on stakeholders, affected populations and vulnerable groups, as well as sectoral and place-based considerations.

Impact drivers	Examples of impacts	Examples of affected stakeholder groups	Examples of affected vulnerable groups	Examples of affected sectors	Examples of place-based considerations
Restructuring of the workforce	Loss of jobs Lack of green skills required for transition Migration Gender inequality in workforce transition and access to skills development Exclusion of women, under-represented groups and local populations	Workforce, including supply chains	Informal workers Women Migrants and refugees	Oil and gas industries Manufacturing (including of textile, or transport) Mining Clean energy Agriculture	Regions that are highly dependent on carbon-intensive activities
Stranded assets	Job losses Negative impacts on businesses leading to economic decline Erosion of tax base in the affected regions, further exacerbating negative social impacts due to reduced funding of public services, such as social protection, healthcare and education.	Communities Workforce, including supply chains	People from lower socio-economic backgrounds Rural communities	Oil and gas industries	Regions that are highly dependent on carbon-intensive activities

Impact drivers	Examples of impacts	Examples of affected stakeholder groups	Examples of affected vulnerable groups	Examples of affected sectors	Examples of place-based considerations
Increased demand for land and critical minerals	Loss and restrained access to land, natural resources and livelihoods Human and labour rights violations, such as forced and child labour and bad working conditions in battery and renewable energy supply chains Impacts on Indigenous peoples' rights and traditional livelihoods. Violations of rights of environmental and human rights defenders	Workforce, including supply chains Communities	Informal workers Women Indigenous peoples Young people (children)	Clean energy Mining Construction	Regions engaged in renewable energy expansion Regions with critical mineral reserves
Increase in energy and commodity prices	Access to and affordability of clean technologies, green housing and mobility, and resilience measures. Affordability of energy and basic goods for low-income households and other vulnerable groups.	Consumers Communities	People from lower socio-economic backgrounds	Energy Transport Construction	Regions with lower endowments
Adaptation					
Infrastructure projects aiming at improving climate resilience	Maladaptation, increasing vulnerability of surrounding communities to natural disasters, leading to losses of land, natural resources or livelihoods	Communities	People with disabilities People from lower socio-economic backgrounds Women	Agriculture Construction	Regions with lower endowments

Annex 2: Mapping the present report to the Impact Management Platform

This table maps how the present report can be mapped to the IMP actions of impact management. The Impact Management Platform (IMP) is a collaboration between the leading providers of sustainability standards and guidance that are coordinating efforts to mainstream the practice of impact management. The Partners are working together to promote interoperability between their existing sustainability resources, address gaps, and engage with policymakers and regulators. The Actions of The Actions of Impact managementmpact management provide an explanation of the core steps and components of impact management as well as relevant resources for each action.

Present report	IMP actions of impact management
Foundations	'Strategy' and 'identify' actions. 'Strategy' consists of embedding impact management into strategy according to organisational purpose and goals and 'identification' is the process through which enterprises, investors and financial institutions start to determine which impact topics it needs to manage.
Governance	'Governance' action. Governance consists of establishing oversight and accountability for impact management
Implementation	'Set targets and plan', 'implement', 'monitor, learn and adapt' actions. These steps involve: making decisions and getting ready for implementation and delivery; rolling out action plans to manage impacts; delivering on targets and fulfilling business strategy; tracking and evaluating implementation and performance for continuous improvement.
Engagement and partnerships	'Implement' action consist in rolling out action plans to manage impacts, including through the engagement of stakeholders
Measurement and reporting	'Measure, assess, value' and 'communicate' action consists of understanding current practice and performance to inform prioritisation and decision-making; and explaining and disclosing practices and performance to inform stakeholders

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