

Forum for Insurance  
Transition to Net Zero

# Closing the Gap

The emerging global agenda of transition plans and the need for insurance-specific guidance

The first of a series of global guidance by the United Nations Environment Programme's Forum for Insurance Transition to Net Zero

November 2024

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# Abbreviations and acronyms

<b>AASB</b>	Australian Accounting Standards Board
<b>ACAPS</b>	Moroccan Supervisory Authority of Insurance and Social Welfare
<b>AFOLU</b>	Agriculture, forestry and other land use
<b>APRA</b>	Australian Prudential Regulation Authority
<b>ASIC</b>	Australian Securities and Investments Commission
<b>AUASB</b>	Australian Auditing and Assurance Board
<b>BMZ</b>	German Federal Ministry for Economic Cooperation and Development
<b>CBD</b>	Convention on Biological Diversity
<b>CBIRC</b>	China Banking and Insurance Regulatory Commission
<b>CDSB</b>	Climate Disclosure Standards Board
<b>CFRF</b>	Climate Financial Risk Forum
<b>CISL</b>	Cambridge Institute for Sustainability Leadership
<b>CRD</b>	Capital Requirements Directive
<b>CSDDD</b>	Corporate Sustainability Due Diligence Directive
<b>CSRD</b>	Corporate Sustainability Reporting Directive
<b>DSIBs</b>	Domestic systemically important banks
<b>ESG</b>	Environmental, social and governance
<b>ESRS</b>	European Sustainability Reporting Standards
<b>EU</b>	European Union
<b>FCA</b>	Financial Conduct Authority (United Kingdom)
<b>FIT</b>	Forum for Insurance Transition to Net Zero
<b>FMA</b>	Financial Markets Authority (New Zealand)
<b>FPIC</b>	Free, Prior and Informed Consent
<b>FRFI</b>	Federally regulated financial institutions
<b>FSB</b>	Financial Stability Board
<b>FSCA</b>	Financial Sector Conduct Authority (South Africa)
<b>GFANZ</b>	Glasgow Financial Alliance for Net Zero
<b>GHG</b>	Greenhouse gas
<b>GRI</b>	Global Reporting Initiative
<b>HLEG</b>	UN Secretary-General's High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities
<b>IAIGs</b>	Internationally active insurance groups
<b>IAIS</b>	International Association of Insurance Supervisors
<b>IASB</b>	International Accounting Standards Board
<b>ICAAP</b>	Internal Capital Adequacy Assessment Process
<b>ICP</b>	Insurance Core Principles

<b>IED</b>	Industrial Emissions Directive
<b>IFRS</b>	International Financial Reporting Standards
<b>ILO</b>	International Labour Organization
<b>IOSCO</b>	International Organization of Securities Commissions
<b>IPBES</b>	Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services
<b>IPCC</b>	Intergovernmental Panel on Climate Change
<b>ISSB</b>	International Sustainability Standards Board
<b>IUCN</b>	International Union for Conservation of Nature
<b>IUU</b>	Illegal, unreported, and unregulated
<b>MAS</b>	Monetary Authority of Singapore
<b>MCII</b>	Munich Climate Insurance Initiative
<b>MSMEs</b>	Micro, small and medium-sized enterprises
<b>NAIC</b>	National Association of Insurance Commissioners (USA)
<b>NBSAPs</b>	National Biodiversity Strategy and Action Plans
<b>NDCs</b>	Nationally Determined Contributions
<b>NFRA</b>	National Financial Regulatory Administration (China)
<b>NGFS</b>	Network for Greening the Financial System
<b>NZAM</b>	Net-Zero Asset Managers initiative
<b>NZAOA</b>	Net-Zero Asset Owner Alliance
<b>NZBA</b>	Net-Zero Banking Alliance
<b>NZTP</b>	Net-Zero Transition Plan Framework
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>ORSA</b>	Own Risk and Solvency Assessment
<b>OSFI</b>	Office of the Superintendent of Financial Services (Canada)
<b>PBAF</b>	Partnership for Biodiversity Accounting Financials
<b>PCAF</b>	Partnership for Carbon Accounting Financials
<b>PFAS</b>	Per- and Polyfluoroalkyl Substances
<b>PRA</b>	Prudential Regulation Authority of the Bank of England
<b>PSI</b>	Principles for Sustainable Insurance
<b>SASB</b>	Sustainability Accounting Standards Board
<b>SBTi</b>	Science-Based Targets initiative
<b>SDG</b>	Sustainable Development Goals
<b>SDR</b>	Sustainability Disclosure Requirements
<b>SEC</b>	Securities and Exchange Commission (USA)
<b>SFC</b>	Financial Superintendence of Colombia
<b>SFDR</b>	Sustainable Finance Disclosure Regulation
<b>SGX</b>	Singapore Exchange
<b>SREP</b>	Supervisory Review and Evaluation Process
<b>SUSEP</b>	Brazilian Superintendence of Private Insurance
<b>TCFD</b>	Task Force on Climate-related Financial Disclosures

<b>TNFD</b>	Taskforce on Nature-related Financial Disclosures
<b>TPT</b>	Transition Plan Taskforce
<b>UNDRIP</b>	United Nations Declaration on the Rights of Indigenous Peoples
<b>UNEP</b>	United Nations Environment Programme
<b>UNESCO</b>	United Nations Educational, Scientific and Cultural Organization
<b>UNFCCC</b>	United Nations Framework Convention on Climate Change
<b>UNICEF</b>	United Nations Children’s Fund
<b>V20</b>	Vulnerable Twenty Group of Ministers of Finance
<b>V20-SIF</b>	V20-Sustainable Insurance Facility
<b>XRB</b>	External Reporting Board (New Zealand)

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# About the Forum for Insurance Transition to Net Zero

The Forum for Insurance Transition to Net Zero (FIT) is a structured dialogue and multi-stakeholder platform led and convened by the United Nations to support the necessary acceleration and scaling up of voluntary climate action by the insurance industry and key stakeholders. The Convenor, Chair and Spokesperson of the FIT is the United Nations Environment Programme (UNEP), which provides and serves as the Secretariat.

The FIT works with insurance market participants (e.g., insurers, reinsurers, re/insurance marketplaces, brokers) and engages with insurance regulators and supervisors, net-zero standard setters and initiatives, the scientific and academic community, civil society, and other key stakeholders (e.g., sustainability disclosure initiatives, real economy actors).

[unepfi.org/fit](https://unepfi.org/fit)

# FIT positioning statement

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Views expressed by the FIT's Consultative Group of Insurance Regulators & Supervisors cannot be construed as official guidance by insurance regulatory and supervisory authorities. As a result, this document does not purport to represent or anticipate regulatory or supervisory guidance and views issued by insurance regulatory and supervisory authorities, which may differ from the contents of this document.

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\*Country where parent company is domiciled

\*\* Place of domicile

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# Executive summary

## Aims and scope of the FIT Transition Plan Project

The aim of the FIT Transition Plan Project is to address the current major gap in transition plan guidance for activities related to the underwriting portfolios of insurance companies, and to link them with transition plan guidance for activities related to the investment portfolios of insurance companies.

In terms of sustainability issues, on balance, the scope of transition plans reflected in approaches and practices to date by insurance and financial market participants, corporates in the real economy, reporting standard-setters and initiatives, financial regulatory and supervisory authorities, and policymakers has focused on climate change. And in the context of climate change, the focus has been on mitigation—specifically the reduction of GHG emissions to net-zero emissions by 2050—and to a lesser extent, adaptation and resilience (coping with the physical impacts of climate change), and the just transition agenda. In this regard, there is a growing view that the transition to a net-zero economy will not be possible without communities, cities and countries becoming climate resilient, and without a transition that is just for impacted groups, including workers, communities, supply chains and consumers. Furthermore, the scope of transition plans should be extended to address other equally material, interconnected and climate-related sustainability issues such as nature and biodiversity loss, and pollution and waste. Therefore, the project aims to clearly link net zero with adaptation and resilience, the just transition agenda, nature and biodiversity, and pollution prevention via a circular economy as part of a holistic and integrated approach to transition planning that covers and links the underwriting and investment activities of insurance companies.

## Global policy frameworks on sustainability and the emergence of transition plans

The latest reports of the Intergovernmental Panel on Climate Change (IPCC), Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) and International Resource Panel highlight the urgent and decisive action needed to

tackle the triple planetary crisis of climate change, nature loss, and pollution adversely affecting economies and societies around the world.<sup>1,2,3</sup>

In recent years, transition plans have emerged as a key tool that organisations—including insurance companies—can use as part of a just transition to a resilient net-zero economy. Developing and disclosing credible transition plans are critical to managing climate and other sustainability risks and opportunities; to complying with policy, regulatory and investor requirements; to meeting client and civil society expectations; and to demonstrating accountability and transparency to net-zero and sustainability commitments.

## Existing typology of transition plans

A transition plan can be viewed as a detailed multiyear account of strategies, targets and actions that sets out how an organisation plans to ensure that its business model and strategy are compatible with a specific environmental objective, such as the goal of limiting global warming to 1.5 °C above pre-industrial levels, in line with the Paris Agreement. To date, transition plans are primarily used as sustainability disclosure documents which do not have a prudential purpose—they are not geared towards meeting public regulation to curb excessive financial sector risk-taking. Rather, transition plans have principally emerged as voluntary and market-led initiatives to shore up net-zero pledges under the Glasgow Financial Alliance for Net Zero (GFANZ).<sup>4</sup>

More recently, a second category for the general corporate sector to produce transition plans has emerged, whereby organisations are mandated by governments to disclose how they intend to ensure that their business model and strategy are compatible with the unfolding global transition to a sustainable economy (e.g. corporate transition plans required by the Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD) in the European Union). These regulations are meant to incentivise market discipline by providing investors with adequate information regarding the climate risk profile of their investments.<sup>5</sup>

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1 IPCC (2023): Summary for policymakers: Climate change 2023: Synthesis report. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, H. Lee and J. Romero (eds.)]. IPCC, Geneva, Switzerland, pp. 1–34, doi: 10.59327/IPCC/AR6-9789291691647.001 [ipcc.ch/report/ar6/syr/downloads/report/IPCC\\_AR6\\_SYR\\_SPM.pdf](https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_SPM.pdf)

2 IPBES (2019): Summary for policymakers of the global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services. S. Díaz, J. Settele, E. S. Brondízio, H. T. Ngo, M. Guèze, J. Agard, A. Arneth, P. Balvanera, K. A. Brauman, S. H. M. Butchart, K. M. A. Chan, L. A. Garibaldi, K. Ichii, J. Liu, S. M. Subramanian, G. F. Midgley, P. Miloslavich, Z. Molnár, D. Obura, A. Pfaff, S. Polasky, A. Purvis, J. Razaque, B. Reyers, R. Roy Chowdhury, Y. J. Shin, I. J. Visseren-Hamakers, K. J. Willis, and C. N. Zayas (eds.). IPBES secretariat, Bonn, Germany. 56 pages. [doi.org/10.5281/zenodo.3553579](https://doi.org/10.5281/zenodo.3553579)

3 UNEP (2024) Global Resources Outlook 2024: Bend the trend—Pathways to a liveable planet as resource use spikes. International Resource Panel. Nairobi. [unep.org/resources/Global-Resource-Outlook-2024](https://www.unep.org/resources/Global-Resource-Outlook-2024)

4 Dikau, S. Robins, N. Smoleńska, A. Klooster, J. Volz, U. (2024): Article published in the Journal of Banking Regulation—Prudential net-zero transition plans: The potential of a new regulatory instrument [link.springer.com/article/10.1057/s41261-024-00247-w](https://link.springer.com/article/10.1057/s41261-024-00247-w)

5 Ibid

A third category has emerged, namely mandatory prudential transition plans that focus on the risks of misalignment with net-zero targets. These risk-based regulatory instruments address micro- and macroprudential concerns related to transition risks. Prudential transition plans could serve as an additional forward-looking assessment tool to safeguard the stability of the financial system and the safety and soundness of financial institutions, thus falling squarely within the remit of prudential supervisory processes.<sup>6</sup>

In summary, prudential transition plans are a promising new instrument that could be used by financial policymakers, regulators and supervisors as an additional dynamic tool to bring distant financial risks into the present, assess and address them.<sup>7</sup> However, care needs to be taken to ensure that any assessment of transition risk is sufficiently forward looking and does not disincentivise insurance companies from providing transition insurance and finance to high-emitting and emissions-intensive sectors which have credible plans to decarbonise and get on a net-zero pathway. Moreover, prudential considerations can be fully integrated into a single transition plan—a single, overarching company strategy—which comprehensively considers risks and opportunities.

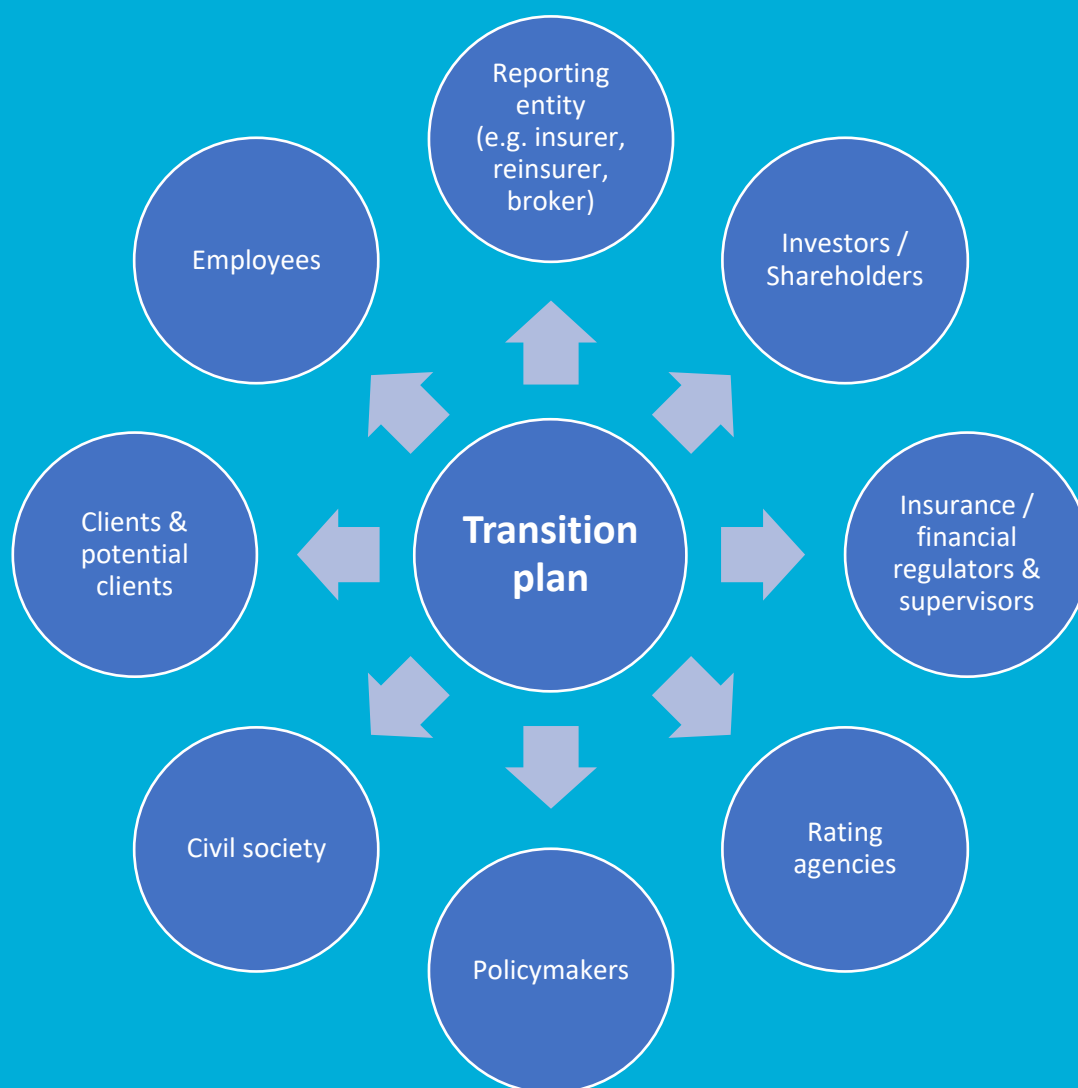
## The importance of transition planning

Internally, transition plans help organisations develop strategies to mitigate these risks or capitalise on opportunities and galvanise and provide clarity to their workforce, ensuring that they are well positioned in an evolving landscape of climate, nature and other sustainability-related policies, regulations, market expectations, impacts, risks and opportunities. Externally, developing and disclosing transition plans and reporting on progress demonstrate an organisation’s sustainability commitment, its competency and capacity to achieve its commitments, its accountability and transparency on climate action, and its progress towards net zero and other sustainability objectives to a wide range of key stakeholders, including investors and shareholders, clients and potential clients, employees, insurance and financial regulators and supervisors, rating agencies, policymakers, and civil society.

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6 Ibid

7 Ibid



**Figure 1:** The many users of one transition plan

The credibility of transition plans is largely dependent on a robust transition planning process. Transition planning<sup>8</sup> refers to the ongoing process that organisations engage in as part of their net zero and broader sustainability journey. This process recognises that the circumstances that organisations operate in are not static but evolve over time due to various factors such as knowledge, data, technological and market developments; and policy, regulatory and legal frameworks. As a result, transition planning is an iterative and continuous internal-facing process of assessment (and reassessment), ambition setting, action planning, and implementation.<sup>9</sup> On the other hand, a transition plan is external-facing and is a point in time snapshot that documents the outputs of the transition planning process.

8 TPT (2024): Transition planning cycle [transitiontaskforce.net/wp-content/uploads/2024/04/Transition-Planning-Cycle.pdf](https://transitiontaskforce.net/wp-content/uploads/2024/04/Transition-Planning-Cycle.pdf)

9 Ibid

# The role of the insurance industry in supporting a just transition to a resilient net-zero economy

As risk managers, insurers help clients and communities understand, prevent and reduce climate-related physical, transition and litigation risks through their expertise in risk research and analytics, natural catastrophe risk models and loss prevention measures. Insurers can also advocate for improved public policies and regulations which support climate risk reduction<sup>10</sup> (e.g. more effective land-use planning, zoning and building codes; disaster preparedness; pandemic prevention, preparedness and response; climate-sensitive disease and health risk management systems).

As risk carriers, insurers protect households, livelihoods, businesses, public entities and governments by absorbing the financial and economic shocks related to more frequent and more severe floods, cyclones, droughts, extreme heat and wildfires. Risk-based insurance underwriting and pricing, and through the availability or non-availability of insurance, provide important risk signals and can incentivise risk reduction measures (e.g. making homes flood resilient; using drought-resistant crops; carrying out landscape-scale forest management to reduce wildfire risk). Insurers also have the opportunity engage with their clients in risk-based discussions on their decarbonisation pathways and support the technological and business model risks associated with the transition to a net-zero economy.<sup>11</sup>

Insurance serves as a foundation for economic activities. Without insurance, it would be difficult for many economic activities across industry sectors and within communities to take place or to be financed. Insurance solutions can de-risk the assets and activities that are driving decarbonisation—from the rapid expansion of renewable energy, zero-emission transport, energy storage, and electrification of industry, through to green buildings, green hydrogen, and nature-based solutions such as forests and wetlands which store carbon and build climate and disaster resilience. Insurance can also cover risks related to transitioning to sustainable practices (e.g. sustainable farming).

Insurers' underwriting policies and criteria impact the transition to net zero. For example, major GHG emitters who are not themselves transitioning to net zero may encounter challenges with respect to insurers who are winding down or declining to write insurance coverage for the most GHG-emitting and most GHG-intensive activities, particularly for clients and potential clients that do not have a credible transition plan to net zero. Moreover, by improving claims management in an environmentally sustainable manner (e.g. repairing instead of replacing damaged vehicle parts), insurers can further reduce GHG emissions.

Insurance brokers also play an important role in facilitating the transition to a net-zero economy. As the main conduit through which businesses buy insurance, brokers could potentially be asked to perform due diligence on their clients to make sure that the business they are placing complies with the criteria set out by insurers. They could also

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10 UNEP (2022): Insuring the net-zero transition: Evolving thinking and practices [unepfi.org/wordpress/wp-content/uploads/2022/04/Insuring-the-net-zero-transition.pdf](https://www.unepfi.org/wordpress/wp-content/uploads/2022/04/Insuring-the-net-zero-transition.pdf)

11 Ibid

engage with clients to help them take steps towards reducing their GHG emissions as an organisation in order to be allowed to purchase a specific insurance policy.<sup>12</sup>

As investors, the insurance industry has more than USD 35 trillion in global assets under management.<sup>13</sup> Just like in their underwriting portfolios, insurers can transition their investment portfolios to net zero. Insurers can engage with their investee companies—some of whom may also be insurance clients—on their decarbonisation pathways and transition plans. In addition, insurers' investments in zero and low-emission infrastructure, technologies and transportation, sustainable agriculture, nature-based solutions, and climate and disaster-resilient infrastructure equally support the transition to a resilient net-zero economy.<sup>14</sup>

## The emerging global agenda of transition plans and key actors

In line with the Paris Agreement, many countries and jurisdictions are implementing policies and regulations to mitigate and adapt to climate change. A growing number of governments and financial regulatory and supervisory authorities around the world, including insurance regulators and supervisors, are now requiring companies in the real economy and financial institutions to disclose their climate-related impacts, risks and opportunities. More recently, a growing number of countries and jurisdictions are now also requiring, or will soon require, the preparation and disclosure of transition plans.

This paper provides a global, but not exhaustive, overview of the emerging landscape of policies and regulations relevant to climate and sustainability disclosures and transition plans, with a focus on the insurance industry and the wider financial sector. To provide a global picture, the information covers a sample of 12 jurisdictions spanning Africa, Asia, Europe, Latin America, North America, and Oceania; with two jurisdictions featured per geographic region.

This paper also identifies key actors in the development of sustainability frameworks and guidance relevant to transition plans.

## Evolution and alignment between key transition plan frameworks and guidance

The TCFD framework has been instrumental in creating a structured and consistent approach to climate-related disclosures by organisations across the globe. While voluntary, the TCFD has been widely adopted as a benchmark for climate-related disclosures. The ISSB's IFRS S2 Climate-related Disclosures reflects the four core pillars of the TCFD

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12 Ibid

13 TheCityUK (2023): Key facts about the UK as an international financial centre 2022 [thecityuk.com/media/wympuijs/key-facts-about-the-uk-as-an-international-financial-centre-2022.pdf](https://thecityuk.com/media/wympuijs/key-facts-about-the-uk-as-an-international-financial-centre-2022.pdf)

14 UNEP (2022): Insuring the net-zero transition: Evolving thinking and practices [unepfi.org/wordpress/wp-content/uploads/2022/04/Insuring-the-net-zero-transition.pdf](https://unepfi.org/wordpress/wp-content/uploads/2022/04/Insuring-the-net-zero-transition.pdf)

framework. IFRS S2 requires companies to disclose information about any climate-related transition plans a company has, including key assumptions used in developing these plans and the dependencies on which the plan relies.

Meanwhile, GFANZ has produced a strategic framework aimed at helping financial institutions and companies develop strategic transition plans. The GFANZ Financial Institution Net-Zero Transition Plan Framework encompasses five themes and ten components.



Figure 2: GFANZ Financial Institution Net-Zero Transition Plan Framework | Source: GFANZ

According to GFANZ, once a financial institution has committed to transition to net zero and is beginning to set targets for this process, the development of a credible transition plan—as part of strategy and planning— is crucial to ensure commitments can be acted on.

On the other hand, the TPT Disclosure Framework,<sup>15</sup> as the name suggests, focuses on the disclosure of transition plans and builds on IFRS S2 and GFANZ strategic transition plan frameworks and guidance.

The diagram below outlines the various elements of the sector-neutral TPT Disclosure Framework, building on TCFD, ISSB and GFANZ frameworks and guidance.

15 TPT (2023): TPT Disclosure Framework [transitiontaskforce.net/wp-content/uploads/2023/10/TPT\\_Disclosure-framework-2023.pdf](https://transitiontaskforce.net/wp-content/uploads/2023/10/TPT_Disclosure-framework-2023.pdf)



Figure 3: Elements of the TPT Disclosure Framework | Source: TPT

This paper also shows the sectors for which the TPT provides sector-specific guidance and summaries. While the various elements of the TPT Disclosure Framework are relevant to all sectors, additional guidance is offered for certain elements due to the unique features or economic roles of specific sectors.

In June 2024, the IFRS Foundation announced that it will assume responsibility for the disclosure-specific materials developed by the TPT, marking an important milestone in the creation of global norms for transition plan disclosure.

## Integrating key features of the insurance business and relevant sustainability issues into transition plans

As with companies in all other sectors of the economy, insurance companies need to develop transition plans which take into account their distinctive features and critical role in supporting a just transition to a resilient net-zero economy. While many features are unique to the insurance industry compared to other sectors, including different industries within the financial sector such as banking and investment management, the following characteristics are particularly relevant when developing transition plans.

### Lines of insurance business

There are many ways of categorising the insurance business, each based on a different perspective on how coverage is structured and provided:

- Insurance (including co-insurance) and reinsurance (facultative and treaty)
- Non-life insurance (also known as property & casualty insurance or general insurance) and life & health insurance<sup>16</sup>
- Short-tail lines and long-tail lines

<sup>16</sup> In some jurisdictions, health insurance is categorised under non-life insurance

- Commercial lines, personal lines, and microinsurance
- Indemnity insurance and parametric insurance (also known as index-based insurance)

## Activities in the insurance value chain

The levers that an insurance company can use to tackle a wide range of sustainability risks and opportunities can be structured across its spheres of its influence. This is the same logic behind the design and structure of the UN Principles for Sustainable Insurance (PSI). This paper outlines a range of possible actions by insurance companies as risk managers and risk carriers that can accelerate and scale up a just transition to a resilient net-zero economy, and how these actions can contribute to tackling interconnected, climate-related sustainability risks, opportunities and challenges such as nature loss and pollution:<sup>17</sup>

- Embedding net-zero and decarbonisation-related risk criteria in risk management frameworks
- Setting underwriting policies, criteria and guidelines
- Engaging with clients, potential clients and suppliers
- Developing insurance products and solutions
- Managing claims sustainably
- Advocating for and engaging in governmental policies
- Collaborating with key stakeholders
- Disclosing the organisation's scopes 1, 2 and 3 GHG emissions and climate-related impacts, risks and opportunities

## Actors in the insurance value chain

Key actors across the insurance value chain include:

- Insurers (including captive insurers), reinsurers and retrocessionaires (i.e. risk carriers)
- Agents and brokers (i.e. intermediaries)
- Insurtech firms, banks, microfinance institutions and cooperatives, who play key roles in distributing insurance products and making them more accessible and cost-effective, and in aggregating demand for insurance

Insurance-specific guidance on transition plans should recognise the distinct and proportional roles of the various actors in the insurance value chain in supporting a just transition to a resilient net-zero economy. For example, to date, there has been insufficient attention and focus on the role of brokers in the transition. The guidance should also recognise the interests and needs of certain insurers, such as:

- Small and medium-sized insurers
- Insurers in emerging markets and developing countries
- Insurers with portfolios with a large proportion of micro, small and medium-sized enterprises (MSMEs)
- Insurers writing specific lines of business only (e.g. personal lines insurance, life & health insurance)

<sup>17</sup> Many of these possible actions are also recognised in relevant work of key stakeholders, including civil society organisations. For example, see WWF (2023): Underwriting our planet: How insurers can help address the crises in climate and biodiversity [www.ch/sites/default/files/doc-2023-09/WWF\\_Deloitte\\_Insurance\\_Biodiversity\\_Climate\\_2023.pdf](https://www.ch/sites/default/files/doc-2023-09/WWF_Deloitte_Insurance_Biodiversity_Climate_2023.pdf)

## Role of insurance in de-risking the transition to a net-zero economy

There is a growing need for the insurance industry to innovate through insurance solutions that support the transition to net zero, or “transition insurance”. Recent research indicates that global insurance premiums for climate resilience and natural catastrophe protection should increase by 50% by 2030. It also underscores the role of insurance in mobilising the climate transition, estimating that over half of the USD 19 trillion already committed to financing the climate transition through to 2030 will require additional insurance coverage.<sup>18</sup>

Significant methodological and financing challenges remain to mobilise capital toward areas of the economy critical to the transition.<sup>19</sup> Akin to the aims of transition finance, “transition insurance” can be viewed as insurance capacity allocated to entities, activities or assets that support the goals of the Paris Agreement. Transition insurance can be applicable to many lines of business (across non-life and life & health insurance) and focuses on climate solutions and enablers, including low, zero or negative-emission solutions, technologies and projects; or activities contributing to the early retirement and managed phaseout of high-emitting or emissions-intensive assets or activities. Transition insurance can target portfolio corporates or individual clients, offering them enhanced support to advance their climate objectives through underwriting terms and conditions. It can also target new clients with climate-compatible business models or practices.

## Role of insurance in supporting climate change adaptation and building resilience

Climate change adaptation and mitigation are two sides of the same coin. They can be both viewed from a risk reduction lens. Adaptation and building resilience entail coping with the physical impacts of climate change through, for example, disaster risk reduction measures and insurance as a financial shock absorber. Climate change mitigation and the transition to a net-zero emissions economy can also be viewed as risk reduction as it addresses the root cause of climate change—GHG emissions.<sup>20</sup>

The transition to a net-zero economy will not be possible without communities, cities and countries being resilient to the increasing frequency and severity of extreme weather events exacerbated by climate change, such as floods, cyclones, droughts, extreme heat and wildfires; as well as by climate-sensitive health risks such as

18 Howden & BCG (2024): The bigger picture: The \$10 trillion role of insurance in mobilising the climate transition [howdengroup.com/sites/huk.howdenprod.com/files/2024-06/the-bigger-picture-whitepaper.pdf](https://www.howdengroup.com/sites/huk.howdenprod.com/files/2024-06/the-bigger-picture-whitepaper.pdf)

19 GFANZ (2023): A GFANZ Secretariat technical review note: Scaling transition finance and real-economy decarbonisation [assets.bbhub.io/company/sites/63/2023/11/Transition-Finance-and-Real-Economy-Decarbonization-December-2023.pdf](https://assets.bbhub.io/company/sites/63/2023/11/Transition-Finance-and-Real-Economy-Decarbonization-December-2023.pdf)

20 Bacani, B. (2024): The triple planetary crisis is an unprecedented generational opportunity (Introduction for Insurance Day’s special report on climate adaptation and resilience) [insuranceday.com/ID1149109/Triple-planetary-crisis-is-an-unprecedented-generational-opportunity](https://insuranceday.com/ID1149109/Triple-planetary-crisis-is-an-unprecedented-generational-opportunity)

zoonotic and vector-borne diseases. This entails the urgent need for people, health systems, livelihoods, homes, businesses, transportation, food and agriculture systems, and infrastructure, among others, to become climate resilient.

For insurers to play a more effective role in advancing adaptation and building resilience as risk managers and risk carriers, they will need access to better data across the key determinants of climate and disaster risk: hazard, exposure and vulnerability. Risk reduction measures impact the affordability, accessibility and availability of insurance and reinsurance across markets. It is also worth noting the risk of certain markets and regions becoming uninsurable because of climate change. This makes adaptation and resilience a vital issue not only for the insurance industry, but also for society at large.

Given that managing risk is the core business of insurers, understanding how insurers will adapt their business models, strategies, operations, and products and services amid a changing climate is an important element of an insurance company's transition plan. For example, in 2021, the PSI published a pioneering report that piloted state-of-the-art approaches—particularly the use of climate change scenarios—to better assess climate-related physical, transition and litigation risks in the insurance business.<sup>21</sup>

## Role of insurance in supporting a just transition

A just transition to a resilient net-zero economy is a key component in ensuring solidarity in dealing with the social impacts of climate change, particularly impacted groups such as workers, communities, supply chains and customers. Potential consequences of an unjust transition can include an even wider insurance protection gap, the lack of access to affordable insurance, and an increase in claims and liabilities due to social unrest or economic instability.

The work done by the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science has articulated that the fundamental purpose of building a net-zero economy is to protect people from the harm, loss and damage caused by uncontrolled climate change. Their work has identified three key factors for financial institutions to consider in the design and delivery of their transition plans:<sup>22</sup>

- Anticipate, assess and address the social risks of the transition
- Identify and enable the social opportunities of the transition
- Ensure meaningful dialogue and participation in net-zero planning

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21 UNEP (2021): Insuring the climate transition: Enhancing the insurance industry's assessment of climate change futures [unepfi.org/psi/wp-content/uploads/2021/01/PSI-TCFD-final-report.pdf](https://unepfi.org/psi/wp-content/uploads/2021/01/PSI-TCFD-final-report.pdf)

22 Curran B., Robins N., Muller S., Subramoni A. and Tickell S. (2022): Making transition plans just: How to embed the just transition into financial sector net zero transition plans. London: Grantham Research Institute on Climate Change and the Environment, London School of Economics and Political Science [lse.ac.uk/granthaminstitute/wp-content/uploads/2022/10/Making-Transition-Plans-Just-2.pdf](https://lse.ac.uk/granthaminstitute/wp-content/uploads/2022/10/Making-Transition-Plans-Just-2.pdf)

Another key consideration in a just transition is the principle of “common but differentiated responsibilities,” which the Paris Agreement adheres to. This principle means that while there is a duty on all countries to take climate action, the types of action they take will depend on their differing national circumstances.<sup>23</sup>

Insurance companies can play a crucial role in enabling a just transition by helping ensure that the shift to a resilient net-zero economy is inclusive and fair for all stakeholders. A fundamental first step is to embed the principles of a just transition in their transition plans (e.g., ILO core labour standards, UN Declaration on the Rights of Indigenous Peoples, principle of Free, Prior and Informed Consent, OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights).

By considering the social impacts of climate change, insurers can develop insurance products and services that protect vulnerable people, workers, communities, supply chains and customers who may be disproportionately affected by the transition. Transition plans of insurers can consider insurance solutions that are suitable for vulnerable communities and help close the protection gap. Among others, these can include microinsurance, unemployment insurance, life and health insurance, and climate risk insurance for micro, small and medium-sized enterprises.

Climate-related disasters impact certain groups within communities and societies—such as women, girls and indigenous peoples—disproportionately owing to their pre-existing socio-economic vulnerabilities.<sup>24</sup> A shining example of women’s empowerment and financial inclusion is the Philippine microinsurance journey, which has been a resounding success because of women as risk-aware homemakers and entrepreneurs, and as microinsurance champions in low-income communities.<sup>25</sup>

## **Role of insurance in supporting the transition to a nature-positive economy, and how this supports a just transition to a resilient net-zero economy**

Nature loss is intimately connected to the world’s response to the climate crisis, with biodiverse ecosystems (e.g. wetlands, forests) reducing GHG emissions as carbon sinks and building climate resilience (e.g. mangroves serving as a buffer for storm surge risk in coastal areas). Human activity in natural ecosystems is a significant source of GHG emissions. Emissions from agriculture, forestry and other land use (AFOLU) represent about a quarter of the emission reductions needed to reach net zero by 2050, and efforts to support and improve natural ecosystems can potentially provide a third of the emissions decrease needed.

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23 UN Climate Change (UNFCCC) (2021): The explainer: The Paris Agreement [unfccc.int/news/the-explainer-the-paris-agreement](https://unfccc.int/news/the-explainer-the-paris-agreement)

24 Bacani, B. (2024): [linkedin.com/feed/update/urn:li:activity:7208609889986744320/](https://www.linkedin.com/feed/update/urn:li:activity:7208609889986744320/)

25 Alip, J. Chan, L. Yupangco, P. (2024): Covering nanay: The Philippine microinsurance journey

Nature loss has far-reaching consequences and should be considered as part of robust and holistic transition planning. Damaged ecosystems exacerbate climate change, undermine food security, and put people and communities at risk. These impacts are relevant to various lines of insurance business (e.g. agriculture/crop, forestry, property, health, life), across all types of insurers, and across developing and developed countries. Net zero and nature positive<sup>26</sup> will not be achieved in isolation as they are interconnected, mutually reinforcing each other.

This paper outlines a range of possible actions<sup>27</sup> on how insurance practices that value, conserve, restore and wisely use biodiversity and ecosystem services can contribute to the net-zero transition, as well as in tackling interconnected sustainability risks, opportunities and challenges such as supporting adaptation and building resilience, supporting a just transition, and preventing pollution via a circular economy:<sup>28</sup> these possible actions are essentially the same levers as those under activities in the insurance value chain.

## Role of insurance in preventing pollution and supporting the transition to a circular economy, and how this supports a just transition to a resilient net-zero economy

According to the Global Resources Outlook 2024 by the International Resource Panel, increasing resource use is the main driver of the triple planetary crisis of climate change, nature loss and pollution. Extraction and processing of material resources (e.g. fossil fuels, minerals, non-metallic minerals and biomass) account for over 55 percent of GHG emissions, and 40 percent of particulate matter health-related impacts. Use of biomass (e.g. agricultural crops and forestry) also account for over 90 percent of the total land use-related biodiversity loss and water stress.<sup>29</sup>

Given that the transition to a circular economy is interconnected with a just transition to a resilient net-zero and nature-positive economy, understanding how insurance companies will integrate circularity, sustainable consumption and production, and pollution prevention (including major issues such as plastic pollution and chemical and industrial pollution) into their business models, strategies, operations, and products and services is an important element of an insurance company's transition plan.

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26 The Nature Positive Initiative defines nature positive as a global societal goal to “halt and reverse nature loss by 2030 on a 2020 baseline and achieve full recovery by 2050” and “it means ensuring more nature in the world in 2030 than in 2020 and continued recovery after that”.

27 UNEP (2023): Nature-positive insurance: Evolving thinking and practices [unepfi.org/industries/insurance/nature-positive-insurance-evolving-thinking-and-practices/](https://unepfi.org/industries/insurance/nature-positive-insurance-evolving-thinking-and-practices/)

28 Many of these possible actions are also recognised in relevant work of key stakeholders, including civil society organisations. For example, see WWF (2023): Underwriting our planet: How insurers can help address the crises in climate and biodiversity [www.ch/sites/default/files/doc-2023-09/WWF\\_Deloitte\\_Insurance\\_Biodiversity\\_Climate\\_2023.pdf](https://www.ch/sites/default/files/doc-2023-09/WWF_Deloitte_Insurance_Biodiversity_Climate_2023.pdf)

29 UNEP (2024): Global Resources Outlook 2024: Bend the trend—Pathways to a liveable planet as resource use spikes. International Resource Panel. Nairobi. [unep.org/resources/Global-Resource-Outlook-2024](https://unep.org/resources/Global-Resource-Outlook-2024)

The circular economy is also embedded in policy and regulatory frameworks such as the EU's CSRD.<sup>30</sup>

## The TPT Disclosure Framework in relation to the insurance business and relevant sustainability issues

In disclosing their transition plans, the FIT recommends that insurers embrace the principle of double materiality, addressing both the financial impacts of climate change and other sustainability risks and opportunities on their insurance business, and the impacts of their insurance business on society and the environment. In line with the TPT sector-specific guidance that has been developed for other financial industries, such as the guidance for banks, asset owners (applicable to insurance companies as investors) and asset managers (applicable to insurance companies with asset management firms), the FIT has identified in this paper 13 sub-elements of the sector-neutral TPT Disclosure Framework that require insurance-specific guidance. This paper also outlines initial narratives for each disclosure sub-element requiring insurance-specific guidance, and legal compliance requirements when developing and disclosing transition plans.

### Next steps

With a solid foundation set, the next deliverable of the FIT Transition Plan Project is to develop deep-dive guidance for insurance-specific transition plans to further support insurance companies in developing and disclosing credible transition plans for their underwriting activities. Thereafter, the FIT will produce the third and final deliverable of the project—transition plan guidance for the insurance industry that provides a holistic, total balance sheet and organisation-wide view that covers and links the underwriting and investment activities of insurance companies.

A just transition to a resilient net-zero economy will not happen by chance. It requires turning theory into practice so that ambition can turn into action. It requires a transition plan—a credible transition plan. A single transition plan can have many internal and external users and should speak to a single, overarching strategy. At the end of the day, a transition plan is about core company strategy. It articulates where a company wants to be tomorrow, and what actions it is taking today in order to get there.

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30 The CSRD defines a circular economy as “an economic system in which the value of products, materials and other resources in the economy is maintained for as long as possible, enhancing their efficient use in production and consumption, thereby reducing the environmental impact of their use, minimising waste and the release of hazardous substances at all stages of their life cycle, including through the application of the waste hierarchy. The goal is to maximise and maintain the value of the technical and biological resources, products and materials by creating a system that allows for durability, optimal use or re-use, refurbishment, remanufacturing, recycling and nutrient cycling.”

In this vein, the FIT hopes that this paper has provided illumination on the emerging global agenda of transition plans and the need for insurance-specific guidance. It encourages insurance market participants, insurance regulatory and supervisory authorities, the scientific and research community, civil society organisations; and sustainability and reporting initiatives and standard setters to get going now with the things they need to do to ensure the development and delivery of credible insurance company transition plans that are fit for purpose.

# 1. Aims and scope of the FIT Transition Plan Project

Given the key role of transition plans in helping achieve a just transition to a resilient net zero emissions economy, the FIT has identified the development of insurance-specific transition plan guidance as one of its work priorities.

The aim of the FIT Transition Plan Project is to address the current major gap in transition plan guidance for activities related to the underwriting portfolios of insurance companies (including claims management activities), and to link them with transition plan guidance for activities related to the investment portfolios of insurance companies. Current guidance is either generic or guidance that mainly covers the investment activities of insurance companies. Therefore, without specifically and sufficiently considering underwriting activities, current transition plan guidance does not provide a holistic, total balance sheet and organisation-wide view of insurance company transition plans.

In terms of sustainability issues, on balance, the scope of transition plans reflected in approaches and practices to date by insurance and financial market participants, corporates in the real economy, reporting standard-setters and initiatives, financial regulatory and supervisory authorities, and policymakers has focused on climate change. And in the context of climate change, the focus has been on mitigation—specifically the reduction of GHG emissions to net zero emissions by 2050—and to a lesser extent, adaptation and resilience (coping with the physical impacts of climate change), and the just transition agenda. In this regard, there is a growing view that the transition to a net-zero economy will not be possible without communities, cities and countries becoming climate resilient, and without a transition that is just for impacted groups, including workers, communities, supply chains and consumers. Furthermore, the scope of transition plans should be extended to address other equally material, interconnected and climate-related sustainability issues such as nature and biodiversity loss, and pollution and waste. Therefore, the project aims to clearly link net zero with adaptation and resilience, the just transition agenda, nature and biodiversity, and pollution prevention via a circular economy as part of a holistic and integrated approach to transition planning that covers and links the underwriting and investment activities of insurance companies.

The project seeks to close the major gap in insurance-specific transition plan guidance through a multiphase approach, with the following deliverables:

- **First deliverable (this paper):** Recommended key elements of insurance-specific transition plan guidance. This will be the outcome of an analysis of the existing typology of transition plans, the landscape of emerging policies and regulations relevant to transition plans, the evolution of transition plan frameworks and guidance, and an assessment of key features of the insurance business and relevant sustainability issues needed to develop deep-dive insurance-specific transition plan guidance
- **Second deliverable:** Building on the first deliverable, this will provide deep-dive guidance to further support insurance companies in developing and disclosing credible transition plans for activities related to their underwriting portfolios
- **Third deliverable:** Transition plan guidance for the insurance industry that provides a holistic, total balance sheet and organisation-wide view that covers and links the activities of insurance companies with respect to both their underwriting and investment portfolios.

## 2. Why transition plans are relevant to the insurance industry

### 2.1 Global policy frameworks on sustainability and the emergence of transition plans

The latest reports of the Intergovernmental Panel on Climate Change (IPCC),<sup>31</sup> Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES)<sup>32</sup> and International Resource Panel<sup>33</sup> highlight the urgent and decisive action needed to tackle the triple planetary crisis of climate change, nature loss, and pollution adversely affecting economies and societies around the world. For this reason, various global policy frameworks on sustainability have been forged over the years, from the Paris Agreement on Climate Change, Kunming-Montreal Global Biodiversity Framework and UN Convention to Combat Desertification, to the Global Framework on Chemicals and the upcoming global treaty on plastic pollution. All these frameworks are in line with the aims of the UN Sustainable Development Goals (SDGs)—the shared global blueprint for economic, social and environmental sustainability.

In recent years, transition plans have emerged as a key tool that organisations—including insurance companies—can use as part of a just transition to a resilient net-zero economy. Developing and disclosing credible transition plans are critical to managing climate and other sustainability risks and opportunities; to complying with policy, regulatory and investor requirements; to meeting client and civil society expectations; and to demonstrating accountability and transparency to net-zero and sustainability commitments.

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31 IPCC (2023): Summary for policymakers: Climate change 2023: Synthesis report. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, H. Lee and J. Romero (eds.)]. IPCC, Geneva, Switzerland, pp. 1–34, doi: 10.59327/IPCC/AR6-9789291691647.001 [ipcc.ch/report/ar6/syr/downloads/report/IPCC\\_AR6\\_SYR\\_SPM.pdf](https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_SPM.pdf)

32 IPBES (2019): Summary for policymakers of the global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services. S. Díaz, J. Settele, E. S. Brondízio, H. T. Ngo, M. Guèze, J. Agard, A. Arneth, P. Balvanera, K. A. Brauman, S. H. M. Butchart, K. M. A. Chan, L. A. Garibaldi, K. Ichii, J. Liu, S. M. Subramanian, G. F. Midgley, P. Miloslavich, Z. Molnár, D. Obura, A. Pfaff, S. Polasky, A. Purvis, J. Razzaque, B. Reyers, R. Roy Chowdhury, Y. J. Shin, I. J. Visseren-Hamakers, K. J. Willis, and C. N. Zayas (eds.). IPBES secretariat, Bonn, Germany. 56 pages. [doi.org/10.5281/zenodo.3553579](https://doi.org/10.5281/zenodo.3553579)

33 UNEP (2024) Global Resources Outlook 2024: Bend the trend—Pathways to a liveable planet as resource use spikes. International Resource Panel. Nairobi. [unep.org/resources/Global-Resource-Outlook-2024](https://unep.org/resources/Global-Resource-Outlook-2024)

## 2.2 Definitions and existing typology of transition plans

For context, there are various definitions of a transition plan across standard setters, initiatives, and jurisdictions. These definitions will continue to be taken into consideration by the FIT as it progresses with relevant work.

### Box 1: Examples of transition plan definitions by internationally-recognised bodies

- **UN Secretary-General’s High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities (HLEG):** The recommendations of the HLEG state that comprehensive and actionable net-zero transition plans “indicate actions that will be undertaken to meet all targets, as well as align governance and incentive structures, capital expenditures, research and development, skills and human resource development, and public advocacy, while also supporting a just transition.”<sup>34</sup>
- **International Sustainability Standards Board (ISSB):** The IFRS S2 Climate-related Disclosures standard issued by the ISSB defines a climate-related transition plan as “an aspect of an entity’s overall strategy that lays out the entity’s targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions.”<sup>35</sup> It is worthwhile to note that the **Transition Plan Taskforce (TPT) Disclosure Framework** leverages the ISSB’s definition of a climate-related transition plan.<sup>36</sup>
- **Glasgow Financial Alliance for Net Zero (GFANZ):** GFANZ defines a net-zero transition plan as “a set of goals, actions, and accountability mechanisms to align an organisation’s business activities with a pathway to net zero GHG emissions that delivers real-economy emissions reduction in line with achieving global net zero.”<sup>37</sup>
- **Network for Greening the Financial System (NGFS):** NGFS states that “transition plans articulate an entity’s strategic response to risks and opportunities that emerge due to a system-wide adaptation to the impacts of climate change and the transition to a low-emission economy.”<sup>38</sup>

34 UN (2022): Integrity matters: Net-zero commitments by businesses, financial institutions, cities and regions [un.org/sites/un2.un.org/files/high-level\\_expert\\_group\\_n7b.pdf](https://un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf)

35 IFRS (2023): IFRS S2 Climate-related Disclosures [ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/english/2023/issued/part-a/issb-2023-a-ifrs-s2-climate-related-disclosures.pdf?bypass=on](https://ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/english/2023/issued/part-a/issb-2023-a-ifrs-s2-climate-related-disclosures.pdf?bypass=on)

36 TPT (2023): TPT Disclosure Framework [transitiontaskforce.net/wp-content/uploads/2023/10/TPT\\_Disclosure-framework-2023.pdf](https://transitiontaskforce.net/wp-content/uploads/2023/10/TPT_Disclosure-framework-2023.pdf)

37 GFANZ (2022): Financial institution net-zero transition plans: Fundamentals, recommendations, and guidance [assets.bbhub.io/company/sites/63/2022/09/Recommendations-and-Guidance-on-Financial-Institution-Net-zero-Transition-Plans-November-2022.pdf](https://assets.bbhub.io/company/sites/63/2022/09/Recommendations-and-Guidance-on-Financial-Institution-Net-zero-Transition-Plans-November-2022.pdf)

38 NGFS (2024): Transition plan package [ngfs.net/sites/default/files/medias/documents/ngfs\\_transition\\_plan\\_package.pdf](https://ngfs.net/sites/default/files/medias/documents/ngfs_transition_plan_package.pdf)

- **EFRAG** (previously known as the European Financial Reporting Advisory Group): A transition plan for climate change mitigation under the European Sustainability Reporting Standards (ESRS) is defined as “an aspect of an undertaking’s overall strategy that lays out the undertaking’s targets, actions and resources for its transition towards a lower-carbon economy, including actions such as reducing its GHG emissions with regard to the objective of limiting global warming to 1.5°C and climate neutrality.”

Another view is that a transition plan is a detailed multiyear account of strategies, targets and actions that sets out how an organisation plans to ensure that its business model and strategy are compatible with a specific environmental objective, such as the goal of limiting global warming to 1.5 °C above pre-industrial levels, in line with the Paris Agreement.<sup>39</sup> The primary rationale for the financial sector to align business models and operations with commitments made by governments is to anticipate investment opportunities and mitigate transition risks. In the financial sector, transition plans also serve to make voluntary commitments and goals (e.g., net zero by 2050) made by financial institutions, including insurance companies, more credible. However, policymakers are increasingly recognising the importance of setting expectations or binding requirements to integrate transition plans into organisations’ strategy and sustainability disclosures (e.g., through the Corporate Sustainability Reporting Directive (CSRD) in the European Union).<sup>40</sup>

Over the past few years, several categories of transition plans have emerged. To date, transition plans are primarily used as sustainability disclosure documents which do not have a prudential purpose—they are not geared towards meeting public regulation to curb excessive financial sector risk-taking. Rather, transition plans principally emerged as voluntary and market-led initiatives to shore up net-zero pledges under GFANZ. Generally, transition plans are considered part of the broader climate and sustainability-related strategy of financial institutions. This is also the case for the Task Force on Climate-related Financial Disclosures (TCFD) frameworks and their non-binding recommendations that are progressively being integrated into regulatory frameworks globally.<sup>41</sup> In 2021, the TCFD issued updated implementation guidance<sup>42</sup> including transition plans, as well as specific guidance on metrics, targets and transition plans. While the TCFD encourages the inclusion of transition plans within its broader disclosure framework, it does not explicitly mandate them as a separate requirement.<sup>43</sup>

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39 Dikau, S. Robins, N. Smoleńska, A. Klooster, J. Volz, U. (2024): Article published in the Journal of Banking Regulation—Prudential net-zero transition plans: The potential of a new regulatory instrument [link.springer.com/article/10.1057/s41261-024-00247-w](https://link.springer.com/article/10.1057/s41261-024-00247-w)

40 Ibid

41 Ibid

42 TCFD (2021): Implementing the recommendations of the Task Force on Climate-related Financial Disclosures [assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing\\_Guidance.pdf](https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf)

43 TCFD (2021): Guidance on metrics, targets, and transition plans [assets.bbhub.io/company/sites/60/2021/07/2021-Metrics\\_Targets\\_Guidance-1.pdf](https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf)

More recently, a second category for the general corporate sector to produce transition plans has emerged, whereby organisations are mandated by governments to disclose—as part of their sustainability disclosures—how they intend to ensure that their business model and strategy are compatible with the unfolding global transition to a sustainable economy. In the EU, mandatory corporate transition plans were introduced with the CSRD in 2022 and the Corporate Sustainability Due Diligence Directive (CSDDD) in 2024.<sup>44</sup> Related to these developments, in 2023, the European Commission adopted the European Sustainability Reporting Standards (ESRS) for use by all companies subject to the CSRD, marking another step forward in the transition to a sustainable EU economy. The ESRS covers the full range of environmental, social, and governance issues, including climate change, biodiversity and human rights. They provide information for investors to understand the sustainability impact of the companies in which they invest. They also take account of discussions with the International Sustainability Standards Board (ISSB) and the Global Reporting Initiative (GRI) in order to ensure a very high degree of interoperability between EU and global standards and to prevent unnecessary double reporting by companies. The reporting requirements will be phased in over time for different companies.<sup>45</sup>

In the United Kingdom of Great Britain and Northern Ireland, the government launched a Transition Plan Taskforce (TPT) in 2022 which has since developed its own “gold standard”. These regulations are meant to incentivise market discipline by providing investors with adequate information regarding the climate risk profile of their investments. As such, they mainly fall within the remit of market conduct supervisors, who have limited tools to address the inadequacy of the plans from the point of view of addressing prudential risks.<sup>46</sup>

A third category has emerged, namely mandatory prudential transition plans that focus on the risks of misalignment with net-zero targets. These risk-based regulatory instruments would be mandatory and introduced to address micro- and macroprudential concerns related to transition risks. The prudential transition plans could serve as an additional forward-looking assessment tool to safeguard the stability of the financial system and the safety and soundness of financial institutions, thus falling squarely within the remit of prudential supervisory processes, such as the EU’s Supervisory Review and Evaluation Process (SREP). In the EU, policymakers have introduced prudential transition plans as part of the “Single Rulebook” for banks under the 2024 Capital Requirements Directive reform.<sup>47</sup>

On insurance, sustainability risk plans under Solvency II seek to enhance the regulatory framework and industry practices; but are not about setting decarbonisation targets that are not risk-based. Solvency II is the prudential regime for insurance and reinsurance companies (also known as “undertakings”) in the EU, setting out requirements

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44 Dikau, S. Robins, N. Smoleńska, A. Klooster, J. Volz, U. (2024): Article published in the Journal of Banking Regulation—Prudential net-zero transition plans: The potential of a new regulatory instrument [link.springer.com/article/10.1057/s41261-024-00247-w](https://link.springer.com/article/10.1057/s41261-024-00247-w)

45 European Commission (2023): The Commission adopts the European Sustainability Reporting Standards [finance.ec.europa.eu/news/commission-adopts-european-sustainability-reporting-standards-2023-07-31\\_en](https://finance.ec.europa.eu/news/commission-adopts-european-sustainability-reporting-standards-2023-07-31_en)

46 Ibid

47 Ibid

applicable to insurance and reinsurance companies in the EU with the aim of ensuring the adequate protection of policyholders and beneficiaries. Solvency II has a risk-based approach that enables to assess the “overall solvency” of insurance and reinsurance undertakings through quantitative and qualitative measures.<sup>48</sup>

In this regard, Solvency II sustainability risk plans aim to structure the identification, assessment, management, and monitoring of sustainability risks by insurers, thereby codifying evolving practices, clarifying the regulatory framework, and enabling convergent supervisory practices. Mandated in Solvency II, these plans seek to establish minimum standards and reference methodologies for insurers to manage sustainability risks effectively.

The sustainability risk plans are embedded in the Solvency II financial risk assessment framework:

- In line with the Solvency II Delegated Regulation, insurers are required to manage sustainability risks in the short, medium, and long term (Article 44(a) Solvency II Directive)
- Sustainability risk plans aim to structure risk assessment and ensure its integration into the undertaking’s overall strategy
- The plans would integrate the assessment of sustainability risks into the insurer’s long-term strategy, risk appetite, and investment and underwriting strategy and decisions
- This includes the assessment of the materiality of the risks and, where deemed material, carrying out forward-looking scenario analysis to assess potential financial impacts. In this regard, Solvency II’s Own Risk and Solvency Assessment (ORSA) already requires insurers to conduct forward-looking scenario analysis on material climate-related risks (Article 45a Solvency II Directive). In this regard, EIOPA has issued “Application guidance on climate change materiality assessments and climate change scenarios in ORSA”.<sup>49</sup> The guidance sets out supervisory expectations on the integration of the use of climate change scenarios by insurance undertakings in their ORSA, encouraging a forward-looking management of these risks, also in the long term.

Solvency II sustainability risk plans aim to be consistent, and allow read-across, with disclosure requirements from the EU’s Corporate Sustainability Reporting Directive (CSRD) and the Sustainable Finance Disclosure Regulation (SFDR), as well as with net-zero transition plans, such as those under the EU’s Corporate Sustainability Due Diligence Directive (CSDDD).

In short, Solvency II sustainability risk plans aim to provide a comprehensive framework for insurers to manage sustainability risks effectively, aligning with existing regulatory requirements and industry best practices. By integrating sustainability risk assessment into their overall strategy, insurers can ensure a forward-looking management of these risks, also in the long term.

At the global level, the International Association of Insurance Supervisors (IAIS)—the global standard-setting body responsible for the supervision of the insurance industry—

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48 EIOPA website: [eiopa.europa.eu/browse/regulation-and-policy/solvency-ii\\_en](https://www.eiopa.europa.eu/browse/regulation-and-policy/solvency-ii_en)

49 EIOPA (2022): Application guidance on climate change materiality assessments and climate change scenarios in ORSA [eiopa.europa.eu/publications/application-guidance-climate-change-materiality-assessments-and-climate-change-scenarios-orsa\\_en](https://www.eiopa.europa.eu/publications/application-guidance-climate-change-materiality-assessments-and-climate-change-scenarios-orsa_en)

has made it clear that climate change is a source of financial risk, impacting the resilience of individual insurers as well as global financial stability. It has stated that while insurers are exposed to both transition and physical risks through their underwriting and investment activities, they can also be key agents in identifying, mitigating and managing climate risk, thereby contributing to a sustainable transition to net zero. Therefore, climate change is a key theme within the IAIS Strategic Plan. The IAIS' work on climate change spans across many activities such as financial stability risk assessment, development of supervisory and supporting material and capacity building.<sup>50</sup>

A series of IAIS consultations from 2023 to 2024 related to climate risk has encompassed proposed changes to the Insurance Core Principles (ICPs)—the global framework for insurance supervision. These climate risk consultations have also covered a range of supporting supervisory materials related to corporate governance, risk management, internal controls, market conduct, scenario analysis, valuation of assets and liabilities for solvency purposes, investment activities of insurers, insurers' enterprise risk management framework, supervisory review and reporting, public disclosure, macroprudential supervision, and supervisory cooperation.

Furthermore, the IAIS Scenario Analysis Application Paper makes it clear that as part of an insurer's Own Risk and Solvency Assessment (ORSA), an insurer is required to perform a continuity analysis to assess its ability to manage its risks and meet its capital requirements under a range of plausible adverse scenarios with a forward-looking perspective in mind. When material, this analysis should include the identification and assessment of the direct and indirect impact of climate-related risks. This would enable insurers to assess their resilience to financial losses with respect to climate change. This process should incorporate an assessment of physical, transition and liability risks across the different risk categories. For example, assessment of transition risks may cover how increases in carbon taxes and the move towards a net-zero economy would impact both financial assets and technical provisions. Also, any risk of deterioration of future new business volumes or increase in lapses should be assessed to avoid any negative reputational impact in the event an insurer's activities are considered to be supporting high-emitting and emissions-intensive activities, assets, and sectors.

In summary, prudential transition plans are a promising new instrument that could be used by financial policymakers, regulators and supervisors as an additional dynamic tool to bring distant financial risks into the present, assess and address them.<sup>51</sup> However, care needs to be taken to ensure that any assessment of transition risk is sufficiently forward looking and does not disincentivise insurance companies from providing transition insurance and finance to high-emitting and emissions-intensive sectors which have credible plans to decarbonise and get on a net-zero pathway. Moreover, prudential considerations can be fully integrated into a single transition plan—a single, overarching company strategy—which comprehensively considers risks and opportunities.

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50 IAIS website: Climate risk [iaisweb.org/activities-topics/climate-risk/](https://iaisweb.org/activities-topics/climate-risk/)

51 Dikau, S. Robins, N. Smoleńska, A. Klooster, J. Volz, U. (2024): Article published in the Journal of Banking Regulation—Prudential net-zero transition plans: The potential of a new regulatory instrument [link.springer.com/article/10.1057/s41261-024-00247-w](https://link.springer.com/article/10.1057/s41261-024-00247-w)

## 2.3 The importance of transition planning

The preparation of transition plans is an important strategic risk, opportunity and impact management exercise. It enables organisations, in a systematic manner, to identify and manage climate-related risks and opportunities which can have significant impacts on its operational and financial performance.<sup>52</sup>

Internally, transition plans help organisations develop strategies to mitigate these risks or capitalise on opportunities and galvanise and provide clarity to their workforce, ensuring that they are well positioned in an evolving landscape of climate, nature and other sustainability-related policies, regulations, market expectations, impacts, risks and opportunities.

Externally, developing and disclosing transition plans and reporting on progress demonstrate an organisation's sustainability commitment, its competency and capacity to achieve its commitments, its accountability and transparency on climate action, and its progress towards net zero and other sustainability objectives to a wide range of key stakeholders, including investors and shareholders, clients and potential clients, employees, insurance and financial regulators and supervisors, rating agencies, policymakers, and civil society.

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52 TCFD (2017): Final report: Recommendations of the Task Force on Climate-related Financial Disclosures [assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf](https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf)



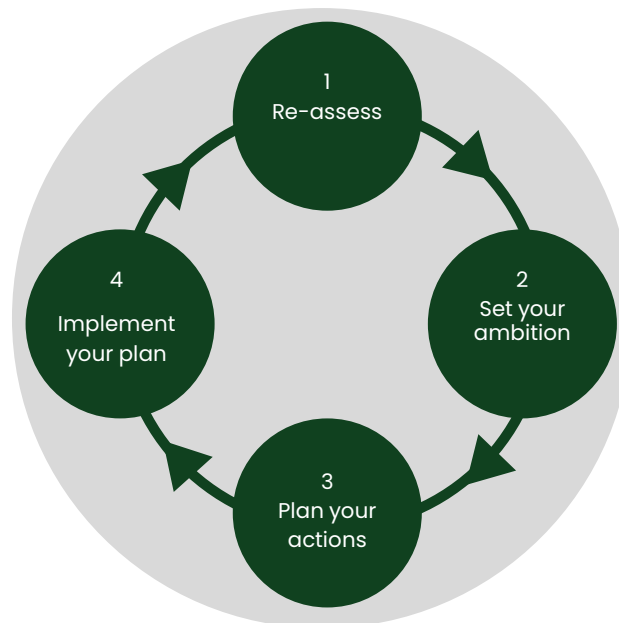
**Figure 1:** The many users of one transition plan

The credibility of transition plans is largely dependent on a robust transition planning process. Transition planning<sup>53</sup> refers to the ongoing process that organisations engage in as part of their net zero and broader sustainability journey. This process recognises that the circumstances that organisations operate in are not static but evolve over time due to various factors such as knowledge, data, technological and market developments; and policy, regulatory and legal frameworks.

As a result, transition planning is an iterative and continuous internal-facing process of assessment (and reassessment), ambition setting, action planning, and implementation.<sup>54</sup> On the other hand, a transition plan is external-facing and is a point in time snapshot that documents the outputs of the transition planning process.

53 TPT (2024): Transition planning cycle [transitiontaskforce.net/wp-content/uploads/2024/04/Transition-Planning-Cycle.pdf](https://transitiontaskforce.net/wp-content/uploads/2024/04/Transition-Planning-Cycle.pdf)

54 Ibid



**Figure 2:** The transition planning cycle | Source: TPT

## 2.4 The role of the insurance industry in supporting a just transition to a resilient net-zero economy

The insurance industry has a key role to play in accelerating and scaling up a just transition to a resilient net-zero economy as risk managers, risk carriers (insurers), and institutional investors. A similar view has also been expressed by the global insurance supervisory community through the International Association of Insurance Supervisors (IAIS) commitment to amplify response to climate change.<sup>55</sup>

As risk managers, insurers help clients and communities understand, prevent and reduce climate-related physical, transition and litigation risks through their expertise in risk research and analytics, natural catastrophe risk models and loss prevention measures. Insurers can also advocate for improved policy from legislators and regulators which supports climate risk reduction. Examples include more effective land-use planning, zoning and building codes, ecosystem-based disaster risk reduction, disaster preparedness,<sup>56</sup> as well as pandemic prevention, preparedness and response; climate-sensitive disease and health risk management systems, climate-health information services, and climate-ready health workforces.

As risk carriers, insurers protect households, livelihoods, businesses, public entities and governments by absorbing the financial and economic shocks related to more frequent and more severe floods, cyclones, droughts, extreme heat and wildfires. This builds financial and economic resilience and supports a just transition, particularly in the

55 IAIS Statement (2021): IAIS commitment to amplify response to climate change [iaisweb.org/uploads/2022/01/211028-IAIS-Statement\\_Commitment-to-amplify-response-to-climate-change\\_October-2021.pdf](https://iaisweb.org/uploads/2022/01/211028-IAIS-Statement_Commitment-to-amplify-response-to-climate-change_October-2021.pdf)

56 UNEP (2022): Insuring the net-zero transition: Evolving thinking and practices [unepfi.org/wordpress/wp-content/uploads/2022/04/Insuring-the-net-zero-transition.pdf](https://unepfi.org/wordpress/wp-content/uploads/2022/04/Insuring-the-net-zero-transition.pdf)

context of vulnerable people and low-income communities. Risk-based insurance underwriting and pricing and through the availability or non-availability of insurance provide important risk signals and can incentivise risk reduction measures (e.g., making homes flood resilient through barriers, water-resistant materials, and elevation; using drought-resistant crops; carrying out landscape-scale forest management to reduce wildfire risk). Insurers also have the opportunity engage with their clients in risk-based discussions on their decarbonisation pathways and support the technological and business model risks associated with the transition to a net-zero economy.<sup>57</sup>

Insurance serves as a foundation for economic activities. Without insurance, it would be difficult for many economic activities across industry sectors and within communities to take place or to be financed. Insurance solutions can de-risk the assets and activities that are driving decarbonisation—from the rapid expansion of renewable energy, zero-emission transport, energy storage, and electrification of industry, through to green buildings, green hydrogen, and nature-based solutions such as forests and wetlands which store carbon and build climate and disaster resilience. Insurance can also cover risks related to transitioning to sustainable practices (e.g., sustainable farming). Insurers' underwriting policies and criteria impact the transition to net zero. For example, major GHG emitters who are not themselves transitioning to net zero may encounter challenges with respect to insurers who are winding down or declining to write insurance coverage for the most GHG-emitting and most GHG-intensive activities, particularly for clients and potential clients that do not have a credible transition plan to net zero. Moreover, by improving claims management in an environmentally sustainable manner (e.g., repairing instead of replacing damaged vehicle parts), insurers can further reduce GHG emissions.

It is worthwhile to note that insurance brokers also play an important role in facilitating the transition to a net-zero economy. As the main conduit through which businesses buy insurance, brokers could potentially be asked to perform due diligence on their clients to make sure that the business they are placing complies with the criteria set out by insurers. They could also engage with clients to help them take steps towards reducing their GHG emissions as an organisation in order to be allowed to purchase a specific insurance policy. The risks for which brokers' clients will seek insurance cover will change over time as their risk profiles and insurance needs change—some coverages may become obsolete, while some new risks will require new insurance products. Brokers need to work closely with their clients and with insurers to understand how insurance products reflect the changing risk profiles of clients that come with either transition or physical risks related to climate change.<sup>58</sup>

As institutional investors, the insurance industry has more than USD 35 trillion in global assets under management.<sup>59</sup> Just like in their underwriting portfolios, insurers can transition their investment portfolios to net zero. Insurers can engage with their investee companies—some of whom may also be insurance clients—on their decarbonisation pathways and transition plans. In this way, insurers can also help foster timely transition to net zero emissions through active stewardship of their investments, building the

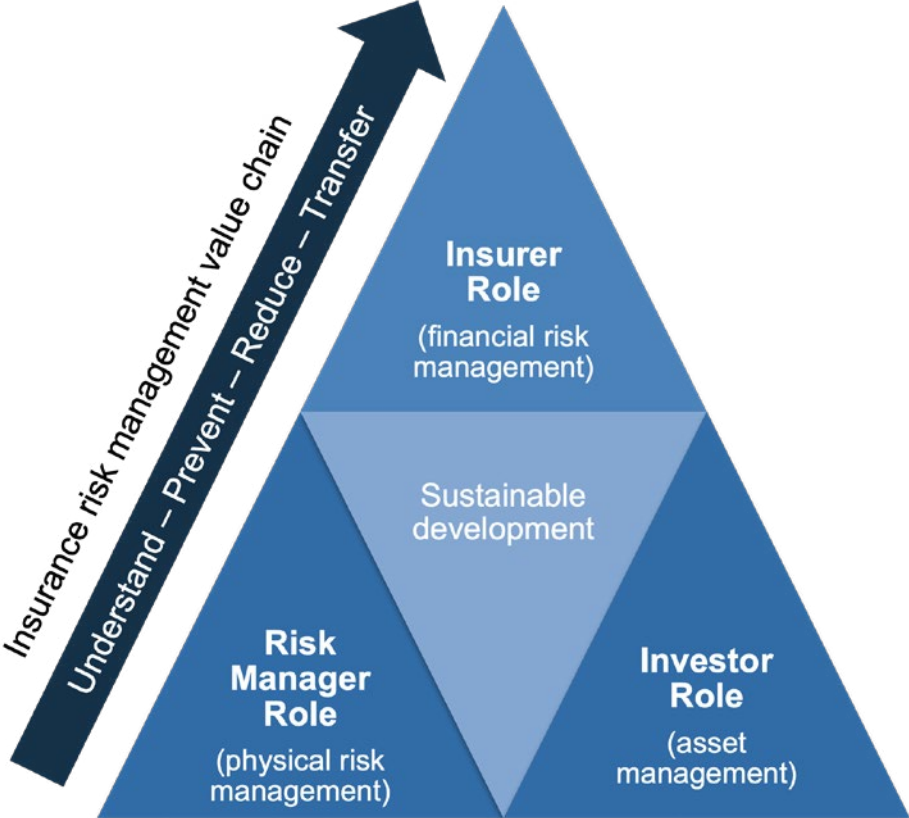
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57 Ibid

58 Ibid

59 TheCityUK (2023): Key facts about the UK as an international financial centre 2022 [thecityuk.com/media/wympuijs/key-facts-about-the-uk-as-an-international-financial-centre-2022.pdf](https://thecityuk.com/media/wympuijs/key-facts-about-the-uk-as-an-international-financial-centre-2022.pdf)

resilience of their portfolios while playing a role in reducing systemic climate-related financial risks. In addition, insurers' investments in zero and low-emission infrastructure, technologies and transportation, sustainable agriculture, nature-based solutions, and climate and disaster-resilient infrastructure equally support the transition to a resilient net-zero economy.<sup>60</sup>



**Figure 3:** The triple role of the insurance industry in addressing sustainability risks and opportunities

60 UNEP (2022): Insuring the net-zero transition: Evolving thinking and practices [unepfi.org/wordpress/wp-content/uploads/2022/04/Insuring-the-net-zero-transition.pdf](https://www.unepfi.org/wordpress/wp-content/uploads/2022/04/Insuring-the-net-zero-transition.pdf)

# 3. The emerging global agenda of transition plans: Examples of relevant policies and regulations from around the world

In line with the Paris Agreement, which mandates signatories to reduce GHG emissions, many countries and jurisdictions are implementing policies and regulations to mitigate and adapt to climate change. A growing number of governments and financial regulatory and supervisory authorities around the world, including insurance regulators and supervisors, are now requiring companies in the real economy and financial institutions to disclose their climate-related impacts, risks and opportunities. More recently, a growing number of countries and jurisdictions are now also requiring, or will soon require, the preparation and disclosure of transition plans.

This section provides a global, but not exhaustive, overview of the emerging landscape of policies and regulations relevant to climate and sustainability disclosures and transition plans, with a focus on the insurance industry and the wider financial sector. To provide a global picture, the information covers a sample of 12 jurisdictions (presented in alphabetical order) spanning Africa, Asia, Europe, Latin America, North America, and Oceania; with two jurisdictions featured per geographic region.

## 3.1 Australia

The Australian Prudential Regulation Authority's (APRA) Prudential Practice Guide (CPG 229),<sup>61</sup> issued in 2021, sets out procedures to manage climate-related financial risks by regulated entities based on governance, risk management, scenario analysis, and disclosure. To assess the resilience of the Australian financial system and institutions to climate-related risks, APRA has implemented climate vulnerability assessments,<sup>62</sup> including scenario analysis and sensitivity testing. Furthermore, APRA is aligning with the TCFD disclosure framework and encouraging the disclosure of transition plans by insurance companies.

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61 APRA (2021): Prudential practice guide CPG 229: Climate change financial risks

[apra.gov.au/sites/default/files/2021-11/Final%20Prudential%20Practice%20Guide%20CPG%20229%20Climate%20Change%20Financial%20Risks.pdf](https://apra.gov.au/sites/default/files/2021-11/Final%20Prudential%20Practice%20Guide%20CPG%20229%20Climate%20Change%20Financial%20Risks.pdf)

62 APRA (2020): APRA outlines plans for climate risk prudential guidance and vulnerability assessment [apra.gov.au/news-and-publications/apra-outlines-plans-for-climate-risk-prudential-guidance-and-vulnerability](https://apra.gov.au/news-and-publications/apra-outlines-plans-for-climate-risk-prudential-guidance-and-vulnerability)

In June 2024, the Australian government released its Sustainable Finance Roadmap, which sets out its vision to implement key sustainable finance reforms and related measures. It aims to mobilise significant private capital required to achieve net zero, modernise Australian financial markets, and maximise the economic opportunities associated with energy, climate, and sustainability goals.<sup>63</sup> The roadmap has three pillars: 1) improve transparency on climate and sustainability, 2) financial system capabilities, and 3) Australian government leadership and engagement.

One priority is to implement climate-related financial disclosure requirements for large businesses and financial institutions, encompassing entities' exposures to climate-related financial risks and opportunities and their climate-related plans and strategies (i.e. transition plans). Subject to the passage of legislation, reporting requirements for Australia's largest companies and financial institutions, among others, will commence from 1 January 2025. According to the roadmap, disclosure requirements will be underpinned by standards expected to be published by the Australian Accounting Standards Board (AASB) in August 2024. In addition, the Australian Auditing and Assurance Board (AUASB) will develop assurance standards for phased introduction in late 2024, and Australian Securities and Investments Commission (ASIC) will engage with and assist reporting entities to meet these new climate disclosure requirements.<sup>64</sup>

Another priority is supporting credible net-zero transition planning. Australia's corporate transition plan disclosure requirements will be contained in the new climate disclosure regime for large companies and financial institutions mentioned above. Treasury will develop and publish guidance on best practice transition plan disclosures by the end of 2025. The guidance will consider priorities of transition plan preparers (e.g., companies) and users (e.g., investors), and emerging domestic and international frameworks and standards (e.g., UK Transition Plan Taskforce's Disclosure Framework, G20 Sustainable Finance Working Group's transition plan workstream; EU International Platform on Sustainable Finance's Transition Working Group).<sup>65</sup>

While facilitating the net-zero transformation is a key objective, the Australian government is taking a "climate first, not only" approach to sustainable finance, integrating other key sustainability considerations such as nature-related financial risks and opportunities.<sup>66</sup>

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63 Australian Government, The Treasury (2024): Sustainable finance roadmap [treasury.gov.au/sites/default/files/2024-06/p2024-536290.pdf](https://treasury.gov.au/sites/default/files/2024-06/p2024-536290.pdf)

64 Ibid

65 Ibid

66 Ibid

## 3.2 Brazil

Building on a history of global leadership on climate risk assessment and disclosure,<sup>67</sup> in 2022, the Brazilian Superintendence of Private Insurance (SUSEP) issued Circular 666<sup>68</sup> which requires insurance companies to manage and disclose sustainability risks and opportunities in their core business strategies and operations. The circular covers a range of sustainability issues, including climate-related physical, transition and litigation risks, the transition to a low-carbon economy, environmental degradation and natural resources, human rights, social inclusion. Insurance companies are required to disclose an annual sustainability report based on the provisions of the circular.

## 3.3 Canada

In 2023, the Office of the Superintendent of Financial Services (OSFI) issued its final Guideline B-15 Climate Risk Management<sup>69</sup> applicable to all federally regulated financial institutions (FRFI), including banks and insurance companies. The guideline specifies that building resilience against climate-related risks requires banks and insurers to address vulnerabilities in their business model, overall operations, and their balance sheet, including continuously monitoring and prudently managing climate-related risks to remain financially and operationally resilient. This includes managing the impact of climate-related risks on the FRFI's short-term and long-term strategic, capital and financial plans by integrating such risks into risk appetite and enterprise risk management frameworks.<sup>70</sup>

The guideline requires each FRFI to develop and implement a climate transition plan to manage increasing climate-related physical and transition risks and the transition towards a low-GHG economy. Each FRFI has to assess the achievability of their respective transition plans under different climate-related scenarios and how they measure their progress against internal emissions metrics and targets. Furthermore, each FRFI has to maintain sufficient capital and liquidity buffers, incorporating climate-related risks into their Internal Capital Adequacy Assessment Process (ICAAP) or Own Risk and Solvency Assessment (ORSA) process.<sup>71</sup>

Domestic systemically important banks (DSIBs) and internationally active insurance groups (IAIGs) headquartered in Canada must start reporting by fiscal yearend 2024, making their climate-related financial disclosures publicly available no later than 180 days after fiscal yearend. All other FRFIs must report by fiscal yearend 2025. Each FRFI must report on governance, strategy, risk management, and metrics and targets, which are in line with the TCFD disclosure framework. The disclosures are not subject to inde-

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67 See, for example, [unepfi.org/industries/insurance/brazil-becomes-worlds-first-insurance-market-to-commit-to-climate-risk-transparency/](https://unepfi.org/industries/insurance/brazil-becomes-worlds-first-insurance-market-to-commit-to-climate-risk-transparency/)

68 SUSEP (2022): Circular 666 [in.gov.br/en/web/dou/-/circular-susep-n-666-de-27-de-junho-de-2022-411020288](https://in.gov.br/en/web/dou/-/circular-susep-n-666-de-27-de-junho-de-2022-411020288)

69 OSFI (2023): Guideline B-15: Sound business practices and prudential limits [osfi-bsif.gc.ca/sites/default/files/import-media/guidance/guideline/2023-04/en/b15-dft.pdf](https://osfi-bsif.gc.ca/sites/default/files/import-media/guidance/guideline/2023-04/en/b15-dft.pdf)

70 Canada Climate Law Initiative (2023): OSFI Guideline B-15 Climate Risk Management now in force [cli.ubc.ca/osfi-guideline-b-15-climate-risk-management-now-in-force/](https://cli.ubc.ca/osfi-guideline-b-15-climate-risk-management-now-in-force/)

71 Ibid

pendent external assurance at this time, but OSFI advises that FRFI should expect external assurance requirements in the future.<sup>72</sup> In March 2024, OSFI revised the minimum mandatory climate-related financial disclosure expectations of Guideline B-15 to align them with the final IFRS S2 Climate-related Disclosures standard issued by the ISSB.<sup>73</sup>

## 3.4 China

In 2022, the China Banking and Insurance Regulatory Commission<sup>74</sup> (CBIRC), which became the National Financial Regulatory Administration (NFRA) in 2023, issued guidelines that require banks and insurance companies to integrate sustainability factors into their decision-making and risk management processes, align portfolios with carbon neutrality goals, and prevent and address adverse impacts on the environment and society.<sup>75,76</sup>

In May 2024, China's Ministry of Finance began soliciting opinions on a draft guideline aimed at unifying corporate sustainability disclosures, with a vision of establishing a nationwide standard by 2030. The draft guideline, Corporate Sustainability Disclosure Standards – Basic Standards, sets general requirements for corporate sustainability information disclosures.<sup>77</sup>

## 3.5 Colombia

The Financial Superintendence of Colombia (SFC) is seeking to ensure that climate risks are adequately assessed by financial institutions, including insurance companies. The SFC requirements<sup>78</sup> on climate disclosure are aligned with the TCFD disclosure framework.

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72 Ibid

73 Dentons Canada Insurance Law Review (2024): OSFI continues building climate resilience with revised expectations for climate related disclosure [canadainsurancelaw.com/osfi-continues-building-climate-resilience-with-revised-expectations-for-climate-related-disclosure/](https://canadainsurancelaw.com/osfi-continues-building-climate-resilience-with-revised-expectations-for-climate-related-disclosure/)

74 China Banking and Insurance Regulatory Commission (2021): Guidelines for climate-related risk management [chinadevelopmentbrief.org/wp-content/uploads/2021/08/Guidelines-for-financial-institutions-environmental-information-disclosure.pdf](https://chinadevelopmentbrief.org/wp-content/uploads/2021/08/Guidelines-for-financial-institutions-environmental-information-disclosure.pdf)

75 Green Finance & Development Center (2022): Interpretation: New CBIRC green finance guidelines for the banking and insurance industry [greenfdc.org/interpretation-new-cbirc-green-finance-guidelines-for-the-banking-and-insurance-industry/](https://greenfdc.org/interpretation-new-cbirc-green-finance-guidelines-for-the-banking-and-insurance-industry/)

76 The State Council of the People's Republic of China (2022): Guidelines in place to support green finance [english.gov.cn/policies/policywatch/202206/08/content\\_WS629fe148c6d02e533532bd53.html](https://english.gov.cn/policies/policywatch/202206/08/content_WS629fe148c6d02e533532bd53.html)

77 The State Council of the People's Republic of China (2024): China charts path to unified sustainability disclosure by 2030 [english.gov.cn/news/202405/28/content\\_WS6655152bc6d0868f4e8e78b8.html](https://english.gov.cn/news/202405/28/content_WS6655152bc6d0868f4e8e78b8.html)

78 Climate Bonds Initiative (2023): Colombia sustainable finance state of the market 2022 [climatebonds.net/files/reports/colombia\\_sustainable\\_state\\_of\\_the\\_market\\_2022\\_english.pdf](https://climatebonds.net/files/reports/colombia_sustainable_state_of_the_market_2022_english.pdf)

## 3.6 European Union

In 2021, the European Union (EU) Taxonomy Regulation<sup>79</sup> introduced a classification system for environmentally sustainable economic activities with the aim of steering investments towards environmental objectives. It mandates relevant organisations, including financial institutions, to disclose their alignment with the taxonomy. In 2021, the Sustainable Finance Disclosure Regulations (SFDR),<sup>80</sup> which seeks to enhance transparency in the sustainability disclosures of the financial sector, mandated financial institutions to disclose how they integrate sustainability risks and opportunities into their operational decisions.

The EU has also introduced regulatory requirements on transition plans through the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD). The CSRD<sup>81</sup> aims to standardise reporting on sustainability across the EU. Under the CSRD, relevant companies and financial institutions are required to disclose climate transition plans, including information on alignment with the objectives of the Paris Agreement.

Meanwhile, the CSDDD<sup>82</sup> mandates companies to conduct due diligence to identify, prevent, and mitigate adverse impacts on human rights and the environment within their operations and supply chains. It also requires companies to adopt transition plans for climate change mitigation. To assist companies, EFRAG (previously known as the European Financial Reporting Advisory Group) is developing transition plan guidance under the CSRD, which will align with the European Sustainability Reporting Standards (ESRS).<sup>83</sup>

Under Solvency II rules, insurers are required to consider environmental, social and governance (ESG) risks when assessing their risk management and investment strategies and insurers must consider climate change risks when conducting their Own Risk Solvency Assessment (ORSA), which is a comprehensive assessment of their overall risk profile and solvency needs. In addition, work is ongoing concerning the development of sustainability risk plans in the Solvency II framework (see more details in Section 2.2).

## 3.7 Morocco

The Moroccan Supervisory Authority of Insurance and Social Welfare (ACAPS) requires the integration of the assessment and management of climate risks into the financial

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79 European Commission website: EU Taxonomy for sustainable activities [finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities\\_en](https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en)

80 European Commission website: Sustainability-related disclosure in the financial services sector [finance.ec.europa.eu/sustainable-finance/disclosures/sustainability-related-disclosure-financial-services-sector\\_en](https://finance.ec.europa.eu/sustainable-finance/disclosures/sustainability-related-disclosure-financial-services-sector_en)

81 European Commission website: Corporate sustainability reporting [finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting\\_en](https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en)

82 European Commission website: Corporate sustainable due diligence [commission.europa.eu/business-economy-euro/doing-business-eu/sustainability-due-diligence-responsible-business/corporate-sustainability-due-diligence\\_en](https://commission.europa.eu/business-economy-euro/doing-business-eu/sustainability-due-diligence-responsible-business/corporate-sustainability-due-diligence_en)

83 EFRAG (2024): EFRAG seeks companies to engage in transition plan implementation guidance [efrag.org/en/news-and-calendar/news/efrag-seeks-companies-to-engage-in-transition-plan-implementation-guidance](https://efrag.org/en/news-and-calendar/news/efrag-seeks-companies-to-engage-in-transition-plan-implementation-guidance)

practices of insurers.<sup>84</sup> ACAPS has issued guidance aligned with the TCFD disclosure framework, requiring insurers to assess and disclose climate-related risks. ACAPS has also issued guidelines encouraging insurers to develop detailed transition plans that are aligned with Morocco's national climate targets.

## 3.8 New Zealand

Through the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021, New Zealand became the first country in the world to introduce mandatory climate-related reporting for the financial sector. The law, which became effective on 1 January 2023, applies to about 200 large financial institutions, including insurers, and listed companies. Reporting is required against climate standards issued by the External Reporting Board (XRB), which are based on the TCFD recommendations. The Financial Markets Authority (FMA) is responsible for the independent monitoring, supervision and enforcement of the climate-related disclosures regime.<sup>85</sup>

In 2023, the XRB issued initial guidance to help climate reporting entities get started on transition planning<sup>86</sup> in relation to the requirements in the Aotearoa New Zealand Climate Standards, whose ultimate aim is to support the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate-resilient future.

## 3.9 Singapore

Following a public consultation in 2021 on proposed enhancements to its sustainability reporting regime, Singapore's national stock exchange, Singapore Exchange (SGX), introduced a phased approach to mandatory climate-related disclosures based on the TCFD recommendations. Industries identified by the TCFD as most affected by climate change and the transition to a lower carbon-economy were prioritised to provide mandatory disclosures progressively from 2023.<sup>87</sup>

In February 2024, the Singaporean government announced that it will introduce mandatory climate-related disclosures aligned with the ISSB standards in a phased approach, implemented as follows:<sup>88</sup>

- From 2025, all listed issuers in Singapore will be required to report and file annual climate-related disclosures using requirements aligned with the ISSB standards. SGX is currently consulting on amendments to its listing rules to implement these requirements. Listed issuers will be required to disclose their Scope 3 GHG emissions from 2026

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84 A2ii (2021): Supervision of climate-related risks in the insurance sector [a2ii.org/en/blog/supervision-of-climate-related-risks-in-the-insurance-sector](https://a2ii.org/en/blog/supervision-of-climate-related-risks-in-the-insurance-sector)

85 New Zealand Ministry for the Environment website (2023): Mandatory climate-related disclosures [environment.govt.nz/what-government-is-doing/areas-of-work/climate-change/mandatory-climate-related-financial-disclosures/](https://environment.govt.nz/what-government-is-doing/areas-of-work/climate-change/mandatory-climate-related-financial-disclosures/)

86 External Reporting Board (2023): Staff guidance: Transition planning—Questions to get started [xrb.govt.nz/dmsdocument/4986/](https://xrb.govt.nz/dmsdocument/4986/)

87 World Resources Institute (2024): Singapore mandates corporate climate risk disclosure to mobilise private climate finance [wri.org/update/singapore-net-zero-corporate-climate-risk-disclosure-private-climate-finance](https://wri.org/update/singapore-net-zero-corporate-climate-risk-disclosure-private-climate-finance)

88 Ibid

- From 2027, large non-listed companies (those with annual revenue of at least SGD 1 billion and total assets of at least SGD 500 million) will be required to do the same, apart from disclosures of Scope 3 GHG emissions. Singapore’s Accounting Corporate and Regulatory Authority will consult on the necessary legislative amendments to implement this in due course and review the experience of listed issuers and large non-listed companies before introducing reporting requirements for other companies.

In September 2024, SGX announced that beginning with financial year 2025, it will require all issuers to start reporting scopes 1 and 2 GHG emissions, and that their climate-related disclosures must also start incorporating the climate-related requirements in the IFRS Sustainability Disclosure Standards issued by the ISSB.<sup>89</sup>

For financial institutions, the Monetary Authority of Singapore’s (MAS) Guidelines on Environmental Risk Management,<sup>90</sup> issued in 2020, require banks, insurers and asset managers to incorporate environmental risks—such as those related to climate change, loss of biodiversity, pollution and changes in land use—in their risk management frameworks and practices. MAS encourages these financial institutions to align their disclosures with internationally-recognised frameworks such as the TCFD recommendations.

In 2023, MAS issued a set of consultation papers proposing guidelines on transition planning by banks, insurers and asset managers to enable the global transition to a net-zero economy. The guidelines set out MAS’ supervisory expectations for financial institutions to have a sound transition planning process to enable effective climate change mitigation and adaptation measures by their customers and investee companies in the global transition to a net-zero economy and the expected physical effects of climate change.<sup>91,92</sup>

## 3.10 South Africa

The Financial Sector Conduct Authority (FSCA) has mandated the integration of climate risk into financial practice. The FSCA<sup>93</sup> encourages insurers to disclose transition plans that are aligned with the TCFD disclosure framework.

89 SGX Group (2024): SGX RegCo to start incorporating IFRS Sustainability Disclosure Standards into climate reporting rules. [sgxgroup.com/media-centre/20240923-sgx-regco-start-incorporating-ifrs-sustainability-disclosure](https://sgxgroup.com/media-centre/20240923-sgx-regco-start-incorporating-ifrs-sustainability-disclosure)

90 MAS (2020): Guidelines on environmental risk management for insurers. [mas.gov.sg/regulation/guidelines/guidelines-on-environmental-risk-management-for-insurers](https://mas.gov.sg/regulation/guidelines/guidelines-on-environmental-risk-management-for-insurers)

91 MAS (2023): MAS guidelines for financial institutions on transition planning for a net-zero economy. [mas.gov.sg/news/media-releases/2023/mas-proposes-guidelines-for-financial-institutions-on-transition-planning](https://mas.gov.sg/news/media-releases/2023/mas-proposes-guidelines-for-financial-institutions-on-transition-planning)

92 MAS (2023): Consultation paper on guidelines on transition planning for insurers. [mas.gov.sg/publications/consultations/2023/consultation-paper-on-guidelines-on-transition-planning-for-insurers](https://mas.gov.sg/publications/consultations/2023/consultation-paper-on-guidelines-on-transition-planning-for-insurers)

93 FSCA website: FSCA statement on sustainable finance and programme of work. [fsc.co.za/TPNL/FSCA%20eNewsletter%20-%2030%20June%202023/04-Sustainable%20finance.html](https://fsc.co.za/TPNL/FSCA%20eNewsletter%20-%2030%20June%202023/04-Sustainable%20finance.html)

## 3.11 United Kingdom of Great Britain and Northern Ireland

The climate work of the Bank of England's Prudential Regulation Authority (PRA) started in 2015, with the publication of its first climate change adaptation report. In 2019, the PRA became the first financial regulator to publish a set of supervisory expectations for banks and insurers on their management of climate-related financial risks. In the same year, the PRA and the Financial Conduct Authority (FCA) established the Climate Financial Risk Forum (CFRF) to build capacity and share best practice across banks, insurers, asset managers and financial regulators to advance responses to the financial risks from climate change, including climate risk disclosure and transition planning.

Since 2022, financial institutions, including insurers, and listed companies have been required by the FCA to publish climate-related disclosures in line with the TCFD disclosure framework. In the same year, the government of the United Kingdom of Great Britain and Northern Ireland launched the Transition Plan Taskforce (TPT) to establish the gold standard for transition plans.

In 2023 and 2024, there have been various efforts by the FCA (e.g., FCA Handbook) and the government (e.g., Sustainability Disclosure Requirements (SDR) Implementation Update 2024) to harmonise transition plan disclosure standards, referencing the TPT Disclosure Framework and the government-endorsed ISSB standards, explicitly recognising the relationship between the two frameworks.<sup>94</sup> Legislation mandating the disclosure of transition plans is pending.<sup>95</sup>

## 3.12 United States of America

In 2022, the National Association of Insurance Commissioners (NAIC) adopted a new climate risk reporting standard<sup>96</sup> for insurance companies, aligned with the TCFD disclosure framework. The new standard, developed by the NAIC's Climate Risk and Resiliency Task Force, requires that insurance companies participating in the annual NAIC Climate Risk Disclosure Survey, which started in 2009, adhere to the TCFD disclosure framework. Under this framework, transition plans are not mandatory for insurers, although they are encouraged as best practice.

In 2023, the Department of the Treasury published its Net-Zero Finance and Investment Principles to underscore the importance and value of financial institutions' net-zero commitments; promote consistency and credibility in financial institutions' approaches to these commitments; and highlight and encourage greater adoption of emerging best

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94 TPT website (August 2024). [transitiontaskforce.net/about/](https://transitiontaskforce.net/about/)

95 Bioregional (2024): TCFD reporting requirements in the UK: Climate transition plans explained. [bioregional.com/news-and-opinion/tcf-reporting-requirements-in-the-uk-climate-transition-plans-explained](https://bioregional.com/news-and-opinion/tcf-reporting-requirements-in-the-uk-climate-transition-plans-explained)

96 NAIC (2022) US insurance commissioners endorse internationally recognized climate risk disclosure standard for insurance companies. [content.naic.org/article/us-insurance-commissioners-endorse-internationally-recognized-climate-risk-disclosure-standard](https://content.naic.org/article/us-insurance-commissioners-endorse-internationally-recognized-climate-risk-disclosure-standard)

practices pertaining to these commitments.<sup>97</sup> Principle 1 states that for a financial institution's net-zero commitment to be credible, it should be accompanied or followed by the development and execution of a net-zero transition plan. It defines a net-zero transition plan as "the set of goals, actions, and accountability mechanisms, including practices, metrics, and targets, designed to meet a commitment and deliver GHG emissions (emissions) reductions across all emission scopes in line with achieving global net zero" and that it is "a tool to help a firm mitigate risk and seize transition-related opportunities". The principles also reference relevant work on transition plans by the TPT and GFANZ.

Furthermore, the principles show how other sustainability issues are relevant to the net-zero transition, including nature and biodiversity, climate resilience and adaptation, environmental justice, and addressing the just transition of the workforce.

In 2023, the State of California enacted Senate Bill (SB) 261 which requires large companies and financial institutions doing business in California to disclose climate risks using the TCFD framework, which in turn requires disclosure of transition plans. Insurers were exempted from SB 261 since the NAIC had adopted the TCFD framework for its climate risk disclosure survey. California also enacted SB 253 which requires large companies doing business in California to disclose their Scopes 1, 2 and 3 emissions. By virtue of their application to any large company doing business in California, SB 261 and SB 253 reach companies incorporated in other states and create a national standard for climate risk and GHG emissions disclosure. Unlike the Securities and Exchange Commission (SEC) rules to enhance and standardise climate-related disclosures by public companies and in public offerings,<sup>98</sup> both California laws apply to public and private companies.

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97 US Department of Treasury (2023): Principles for Net-Zero Financing & Investment. [home.treasury.gov/system/files/136/NetZeroPrinciples.pdf](https://home.treasury.gov/system/files/136/NetZeroPrinciples.pdf)

98 In March 2024, the SEC adopted rules to enhance and standardise climate-related disclosures by public companies and in public offerings, including requirements related to transition plans (see [sec.gov/newsroom/press-releases/2024-31](https://sec.gov/newsroom/press-releases/2024-31)). However, the implementation of these rules has been paused by the SEC due to legal challenges.

# 4. Landscape of frameworks and guidance relevant to transition plans

## 4.1 Key actors in the development of sustainability frameworks and guidance relevant to transition plans

The development of sustainability frameworks and guidance relevant to transition plans has been led by policymakers, standard setters, collaborative initiatives, and civil society organisations. Among others, key actors include the HLEG, TCFD, GFANZ, NGFS, ISSB, TPT, EFRAG, civil society organisations, and academic and research institutions.

### a. UN Secretary-General’s High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities

Since the adoption of the Paris Agreement in 2015, the world has seen an increasing number of net-zero commitments by non-State actors, particularly from the private and financial sectors, as well as from local governments and regions. The growth in pledges has been accompanied by a proliferation of criteria and benchmarks to set net-zero commitments with varying levels of robustness. This can create challenges for consumers, investors and regulators in understanding and comparing commitments, underscoring the need for clearer and more consistent standards to foster transparency, accountability and credibility. In 2022, the UN Secretary-General established a High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities (HLEG) to develop stronger and clearer standards for net zero emissions pledges by non-State entities—including businesses, investors, financial institutions, cities, and regions—and speed up their implementation.<sup>99</sup>

This work of the HLEG culminated with the launch of the report, “Integrity Matters: Net-Zero Commitments by Businesses, Financial Institutions, Cities and Regions” at the 2022 UN Climate Change Conference (COP27) in Egypt. The report provides clarity in four key areas—environmental integrity, credibility, accountability, and the role of governments. The UN Secretary-General has issued specific asks to implement the HLEG’s recommendations and has called on non-State entities to put forward credible and transparent transition plans.<sup>100</sup>

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99 UN (2022): Integrity matters: Net-zero commitments by businesses, financial institutions, cities and regions [un.org/sites/un2.un.org/files/high-level\\_expert\\_group\\_n7b.pdf](https://un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf)

100 Ibid

The HLEG report's ten recommendations are a how-to guide for credible, accountable net-zero pledges and detail what non-State actors need to consider through each stage of their progress towards achieving net-zero ambitions and addressing the climate crisis. It states that non-State actors must publicly disclose comprehensive and actionable net-zero transition plans which indicate actions that will be undertaken to meet all targets, as well as align governance and incentive structures, capital expenditures, research and development, skills and human resource development, and public advocacy, while also supporting a just transition. It recommends that transition plans should be updated every five years, and that progress should be reported annually.<sup>101</sup>

## **b. Task Force on Climate-related Financial Disclosures**

The Task Force on Climate-related Financial Disclosures (TCFD), which was established by the Financial Stability Board (FSB), issued recommendations and a disclosure framework in 2017 to help organisations manage and disclose their climate-related financial risks and opportunities, structured around four core pillars: 1) governance, 2) strategy, 3) risk management, and 4) metrics and targets.<sup>102</sup> The TCFD has also developed sector-specific guidance for industries particularly exposed to climate-related risks, such as the financial sector, energy, transportation, and agriculture. In 2021, the TCFD issued updated implementation guidance<sup>103</sup> including transition plans, as well as specific guidance on metrics, targets and transition plans.<sup>104</sup>

Due to the actions of governments, regulatory authorities, investors and civil society, the TCFD framework has been widely endorsed and adopted internationally. Building on the success of the TCFD, the Taskforce on Nature-related Financial Disclosures (TNFD) is a market-led, science-based and government-backed initiative providing organisations with the tools to act on evolving nature-related issues. In 2023, the TNFD published a set of disclosure recommendations and guidance that encourage and enable business and finance to assess, report and act on their nature-related dependencies, impacts, risks and opportunities.<sup>105</sup> Given that climate and nature-related risks and opportunities are inextricably intertwined, there is a growing view of the need to address both sustainability issues in transition plans (see Section 5).

## **c. Glasgow Financial Alliance for Net Zero**

Launched in 2021, Glasgow Financial Alliance for Net Zero (GFANZ) coordinates efforts across all segments of the financial system to accelerate the transition to a net-zero global economy. It was founded to expand the number of net-zero-committed financial institutions and to establish a forum for addressing financial sector-wide challenges associated with the net-zero transition, helping to ensure high levels of ambition are met with credible action. GFANZ brings together independent, industry-specific alliances to tackle net-zero transition challenges. Its work focuses on three core areas: 1) net-zero

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101 Ibid

102 TCFD (2017): Final report: Recommendations of the Task Force on Climate-related Financial Disclosures. [assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf](https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf)

103 TCFD (2021): Implementing the recommendations of the Task Force on Climate-related Financial Disclosures. [assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing\\_Guidance.pdf](https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf)

104 TCFD (2021): Guidance on metrics, targets, and transition plans. [assets.bbhub.io/company/sites/60/2021/07/2021-Metrics\\_Targets\\_Guidance-1.pdf](https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf)

105 TNFD website. [tnfd.global/](https://tnfd.global/)

transition planning for financial institutions, 2) mobilising capital for emerging markets and developing economies, and 3) net-zero public policy. It has published a series of frameworks and guidance documents to support the development of credible transition plans.<sup>106</sup> Many net-zero alliances within sub-sectors of the financial system are members of GFANZ. Examples include the Net-Zero Asset Owner Alliance (NZAOA), Net-Zero Banking Alliance (NZBA), and Net-Zero Asset Managers initiative (NZAM). These sectoral alliances have produced frameworks and guidance on science-based net-zero metrics and targets, methods and approaches, as well as guidance and tools on transition plans and transition finance.

#### **d. Network for Greening the Financial System**

Launched in 2017, the Network for Greening the Financial System (NGFS) is a group of central banks and financial regulators and supervisors that voluntarily share best practices and contribute to the development of environment and climate risk management in the financial sector, and to mobilise mainstream finance to support the transition towards a sustainable economy.<sup>107</sup> The NGFS has published a series of reports on transition plans. These include a 2023 report taking stock of emerging practices relating to climate transition plans and assessing the role of central banks and supervisors in relation to transition plans,<sup>108</sup> and a 2024 transition plan package, comprising three reports that explore the role of transition plans in enabling the financial system to mobilise capital and manage climate-related financial risks, and the relevance of transition plans to micro-prudential supervision.<sup>109</sup>

#### **e. International Sustainability Standards Board**

The IFRS Foundation, which is responsible for the International Accounting Standards Board (IASB), announced the formation of the International Sustainability Standards Board (ISSB) in 2021 following strong market demand for its establishment. The ISSB is developing, in the public interest, standards that will result in a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets.<sup>110</sup>

The ISSB has international support with its work to develop sustainability disclosure standards backed by the G7, the G20, the International Association of Insurance Supervisors (IAIS),<sup>111</sup> the International Organization of Securities Commissions (IOSCO), the FSB, and Finance Ministers and Central Bank Governors from many jurisdictions across the globe. The ISSB builds on the work of market-led, investor-focused reporting initiatives, including the Climate Disclosure Standards Board (CDSB), the TCFD, the Value Reporting Foundation's Integrated Reporting Framework, and industry-based SASB Standards, as well as the World Economic Forum's Stakeholder Capitalism Metrics.<sup>112</sup>

<sup>106</sup> See various GFANZ publications relevant to transition plans. [gfanzero.com/our-work/financial-institution-net-zero-transition-plans/](https://gfanzero.com/our-work/financial-institution-net-zero-transition-plans/)

<sup>107</sup> NGFS website: [ngfs.net/en](https://ngfs.net/en)

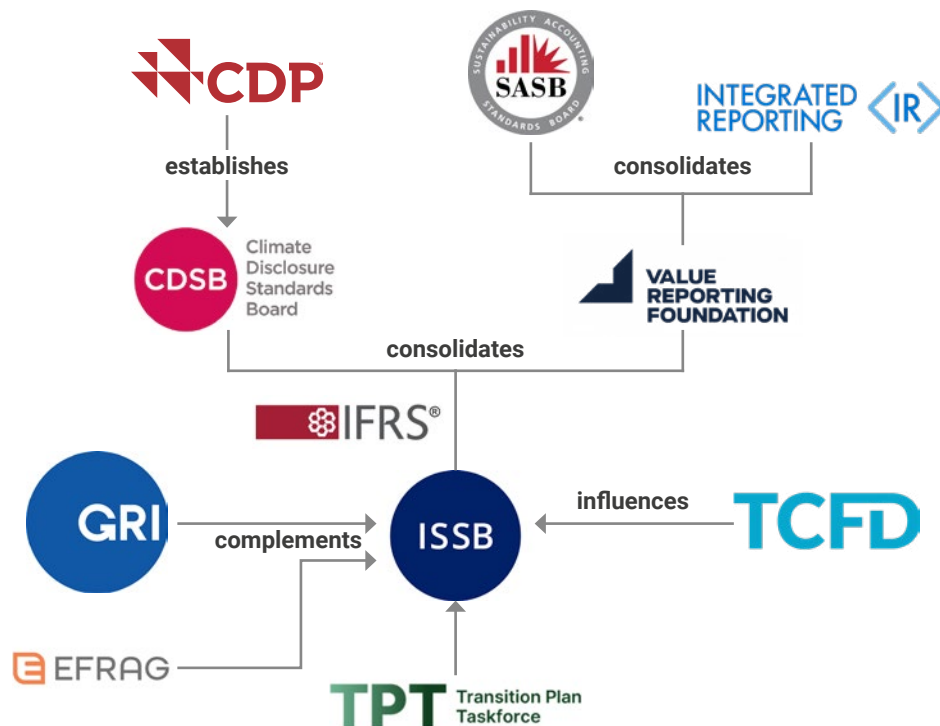
<sup>108</sup> NGFS (2023): NGFS publishes a stock-take on transition plans. [ngfs.net/en/communique-de-presse/ngfs-publishes-stock-take-transition-plans](https://ngfs.net/en/communique-de-presse/ngfs-publishes-stock-take-transition-plans)

<sup>109</sup> NGFS (2024): NGFS publishes a package of reports relating to transition plans. [ngfs.net/en/communique-de-presse/ngfs-publishes-package-reports-relating-transition-plans](https://ngfs.net/en/communique-de-presse/ngfs-publishes-package-reports-relating-transition-plans)

<sup>110</sup> ISSB website: [ifrs.org/groups/international-sustainability-standards-board/](https://ifrs.org/groups/international-sustainability-standards-board/)

<sup>111</sup> IAIS website (2023): [iaisweb.org/2023/06/iais-welcomes-finalisation-of-issb-disclosure-standards/](https://iaisweb.org/2023/06/iais-welcomes-finalisation-of-issb-disclosure-standards/)

<sup>112</sup> ISSB website: [ifrs.org/groups/international-sustainability-standards-board/](https://ifrs.org/groups/international-sustainability-standards-board/)



**Figure 4:** The ISSB and how it links to sustainability reporting initiatives | Source: Adapted from Kirkland & Ellis

In 2023, the ISSB issued its first two IFRS Sustainability Disclosure Standards, IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures,<sup>113</sup> the latter of which requires companies to disclose information about any climate-related transition plans a company has, including key assumptions used in developing these plans and the dependencies on which the plan relies.<sup>114</sup>

In April 2024, the ISSB announced that it will commence projects to research disclosure about risks and opportunities associated with 1) biodiversity, ecosystems and ecosystem services; and 2) human capital. As with the approach to the ISSB’s inaugural standards, the ISSB will look at how it might build from relevant pre-existing initiatives. This includes those already under its purview—the SASB Standards and CDSB guidance—and relevant aspects of the work of the TNFD.<sup>115</sup> Furthermore, the ISSB is engaging with a number of reporting bodies, such as the Global Reporting Initiative (GRI) and the EFRAG, on the interoperability of sustainability reporting standards.

## f. Transition Plan Taskforce

The Transition Plan Taskforce (TPT) was launched in 2022 to establish the “gold standard” for transition plan disclosures, drawing on the components identified by GFANZ

113 ISSB (2023): ISSB issues inaugural global sustainability disclosure standards [ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/](https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/)

114 TPT (2023): TPT Disclosure Framework: [transitiontaskforce.net/wp-content/uploads/2023/10/TPT\\_Disclosure-Framework-2023.pdf](https://www.transitiontaskforce.net/wp-content/uploads/2023/10/TPT_Disclosure-Framework-2023.pdf)

115 ISSB (2024): ISSB to commence research projects about risks and opportunities related to nature and human capital: [ifrs.org/news-and-events/news/2024/04/issb-commence-research-projects-risks-opportunities-nature-human-capital/](https://www.ifrs.org/news-and-events/news/2024/04/issb-commence-research-projects-risks-opportunities-nature-human-capital/)

that make up a good transition plan, ensuring that the outputs of both initiatives lock together to form an integrated approach to transition planning. The TPT has engaged globally with financial institutions, real economy corporates, policymakers, regulators and civil society to develop its materials. The main output of the TPT is the TPT Disclosure Framework, informed by nearly two years of engagement with over 600 organisations around the world.

Furthermore, the TPT has issued various guidance and papers that have advanced the transition plan agenda internationally. Among others, these include deep-dive guidance for several industries in the financial sector (e.g., banking, investment) and sectors in the real economy (e.g., food & beverage, electric utilities & power generators, metals & mining, oil & gas); sector summaries on transition plan guidance for 30 financial and real economy sectors; and guidance on the transition planning cycle; comparative reports vis-à-vis international reporting frameworks (e.g., ISSB, TCFD, ESRS); papers on emerging markets and developing economies; and advisory pieces on relevant sustainability topics such as climate change adaptation, just transition, nature and SMEs.

The TPT's work has been informed by international engagement with various jurisdictions around the world, as well as with key stakeholders such as the FSB, IOSCO, NGFS, G7, G20, UNFCCC, and the Coalition of Finance Ministers for Climate Action.

Many countries are expected to adopt the ISSB global baseline which recommends the disclosure of transition plans. In June 2024, the IFRS Foundation announced that it will assume responsibility for the disclosure-specific materials developed by the TPT. This decision marks an important milestone in the creation of global norms for transition plan disclosure.

## **g. EFRAG**

EFRAG (previously known as the European Financial Reporting Advisory Group) is a private association established in 2001 with the encouragement of the European Commission to serve the public interest. In 2022, EFRAG extended its mission following the new role assigned to EFRAG in the EU's Corporate Sustainability Reporting Directive (CSRD), providing technical advice to the European Commission in the form of draft European Sustainability Reporting Standards (ESRS) and/or draft amendments to these standards. Its member organisations are European stakeholder organisations, national organisations and civil society organisations.<sup>116</sup>

EFRAG's activities are organised in two pillars—financial reporting and sustainability reporting. The financial reporting pillar influences the development of International Financial Reporting Standards (IFRS) Accounting Standards from a European perspective and how they contribute to the efficiency of capital markets, and provides endorsement advice on, and amendments to, IFRS Accounting Standards to the European Commission. The sustainability reporting pillar develops draft ESRS standards and related amendments for the European Commission, and provides implementation support for ESRS.<sup>117</sup>

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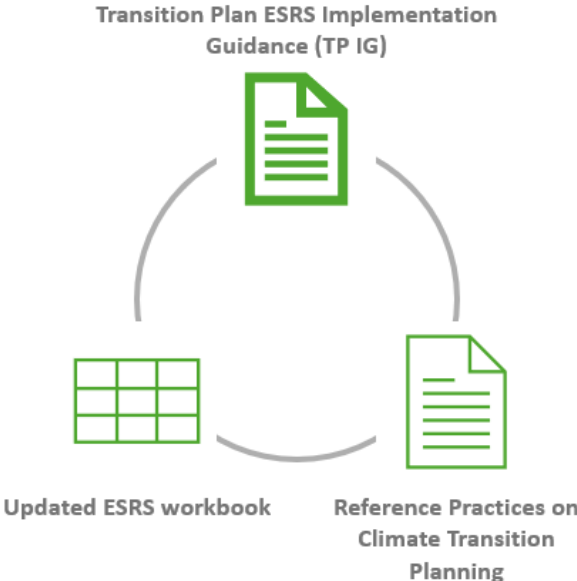
116 EFRAG website [efrag.org/en/about-us](https://efrag.org/en/about-us)

117 Ibid

As technical adviser to the European Commission under the CSRD, EFRAG is developing transition plan guidance under the CSRD, which will align with the ESRS. The transition plan for climate change mitigation is referred to in “E1 climate change” but it also links to other topical standards. The implementation guidance prepared by EFRAG intends to support the political priorities of the EU relative to climate change mitigation and support convergence and coherence with the EU regulations currently addressing the topic of transition plans for climate change mitigation.

A specific focus is dedicated to explaining the disclosures of “E1-1 transition plan for climate change mitigation”, including how its strategy and business model are compatible with the transition to a sustainable economy, and with the limiting of global warming to 1.5 °C in line with the Paris Agreement and with the objective of achieving climate neutrality by 2050 and, where relevant, the undertaking’s exposure to coal, oil and gas-related activities. Dedicated sections of the implementation guidance will support undertakings on how to disclose its compatibility, decarbonisation levers, investment and funding, supporting disclosures, as well as governance, strategy and process related to the transition plan for climate change mitigation.

Additionally, the implementation guidance identifies links and relations to other EU legislation and international initiatives or sources, including the EU Taxonomy, Corporate Sustainability Due Diligence Directive (CSDDD), Capital Requirements Directive (CRD), Industrial Emissions Directive (IED), TPT and GFANZ. Several answers to frequently asked questions related to disclosures on transition plans are also provided.



**Figure 5:** Transition Plan ESRS Implementation Guidance and complementary documents | Source: EFRAG

In its standard-setting activities, EFRAG endeavours to avoid double reporting for those ESRS companies that also wish to apply the IFRS Sustainability Standards and GRI standards. For this purpose, continuous bilateral dialogue is in place with the ISSB and GRI. At the request of the European Commission as well as in appropriate international circles, EFRAG may contribute to technical discussions with other jurisdictions regarding the interoperability of sustainability reporting requirements. EFRAG is also monitoring

other relevant reporting initiatives that are likely to play a role in fostering a global unified approach to a specific topic, such as the TNFD framework for nature. If required, EFRAG may address interoperability issues as part of its practical implementation guidance.

EFRAG plans to release the final version of its transition plan implementation guidance in 2025.<sup>118</sup>

## **h. Civil society organisations and academic and research institutions**

It is important to note that civil society organisations and academic and research institutions have also played a crucial role in the development of transition plan frameworks, guidance and tools applicable to investors and corporates. Their work provides valuable insights and recommendations to develop and assess the credibility of transition plans, highlighting emerging practices and trends in climate and sustainability disclosures and transition planning.

For example, in 2022, WWF published its criteria for credible climate and nature transition plans for financial institutions, spanning five key areas:<sup>119</sup>

- **Ambition and prioritisation:** Commit to net zero in line with 1.5°C warming; set science-based (interim) targets; identify high-impact decarbonisation levers or actions
- **Nature and just transition:** Commit to nature-protection and restoration goals; manage risks and opportunities of nature; capitalise on nature as a carbon sink and resilience measure; enable a just transition
- **Action and implementation:** Adopt policies that commit to fossil fuel phaseout; scale up financing for climate and nature-based solutions; implement credible engagement strategies and escalations processes
- **Accountability and verification:** Establish clear governance structures; seek third party verification; transparently report on progress and results
- **Feedback and flexibility:** Embed flexibility into implementation; ensure material updates inform future iterations of plans; enact clear adjustments if there are deviations from targets

Another example is Reclaim Finance's 2024 report, "Corporate climate transition plans: What to look for."<sup>120</sup> It shows how to assess transition plans to avoid greenwashing, red flag indicators for screening climate transition plans, and the following five minimum assessment criteria for a robust transition plan:

- Robust decarbonisation targets
- A sound decarbonisation strategy
- A relevant engagement strategy
- The integration in reporting and governance
- Considering just transition and biodiversity

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118 Responsible Investor (2024): EU standards body targeting Q2 2025 for transition plan guidance release [responsible-investor.com/eu-standards-body-targeting-q2-2025-for-transition-plan-guidance-release/](https://responsible-investor.com/eu-standards-body-targeting-q2-2025-for-transition-plan-guidance-release/)

119 WWF (2022): WWF's criteria for credible climate and nature transition plans for financial institutions [wwfint.awsassets.panda.org/downloads/wwf\\_credible\\_transition\\_final.pdf](https://wwfint.awsassets.panda.org/downloads/wwf_credible_transition_final.pdf)

120 Reclaim Finance (2024): Corporate climate transition plans: What to look out for [reclaimfinance.org/site/wp-content/uploads/2024/01/Report-Climate-Transition-Plan-Reclaim-Finance-January-2024.pdf](https://reclaimfinance.org/site/wp-content/uploads/2024/01/Report-Climate-Transition-Plan-Reclaim-Finance-January-2024.pdf)

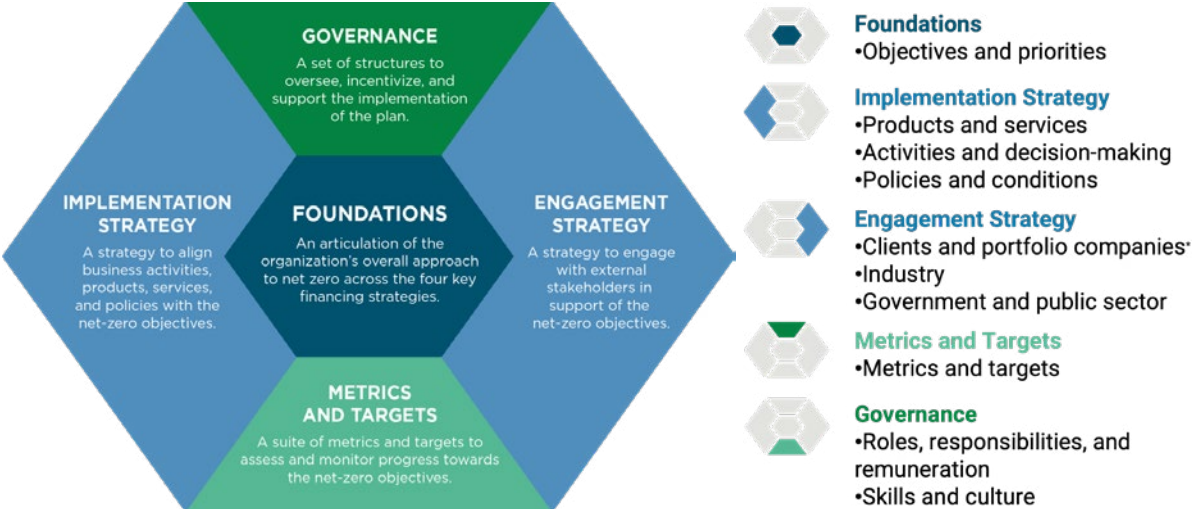
# 4.2 Evolution and alignment between key transition plan frameworks and guidance

The TCFD framework has been instrumental in creating a structured and consistent approach to climate-related disclosures by organisations across the globe. While voluntary, the TCFD has been widely adopted as a benchmark for climate-related disclosures.

The ISSB’s IFRS S2 Climate-related Disclosures reflects the four core pillars of the TCFD framework. As mentioned above, IFRS S2 requires companies to disclose information about any climate-related transition plans a company has, including key assumptions used in developing these plans and the dependencies on which the plan relies.

Meanwhile, GFANZ has produced a strategic framework aimed at helping financial institutions and companies develop strategic transition plans.

The GFANZ Financial Institution Net-Zero Transition Plan Framework encompasses five themes and ten components. This framework can also be used by companies in the real economy and the GFANZ report, “Expectations for real-economy transition plans”, provides further detail. For real economy companies, the engagement strategy component on “clients and portfolio companies” would relate to the value chain instead. This acknowledges that for financial institutions, the majority of emissions is found in their financing activities (including insurance) rather than their operations. For real economy companies, it is the whole value chain, particularly the supply chain, that houses the majority of emissions.



**Figure 6:** GFANZ Financial Institution Net-Zero Transition Plan Framework | Source: GFANZ

According to GFANZ, once a financial institution has committed to transition to net zero and is beginning to set targets for this process, the development of a credible transition plan—as part of strategy and planning—is crucial to ensure commitments can be acted on.

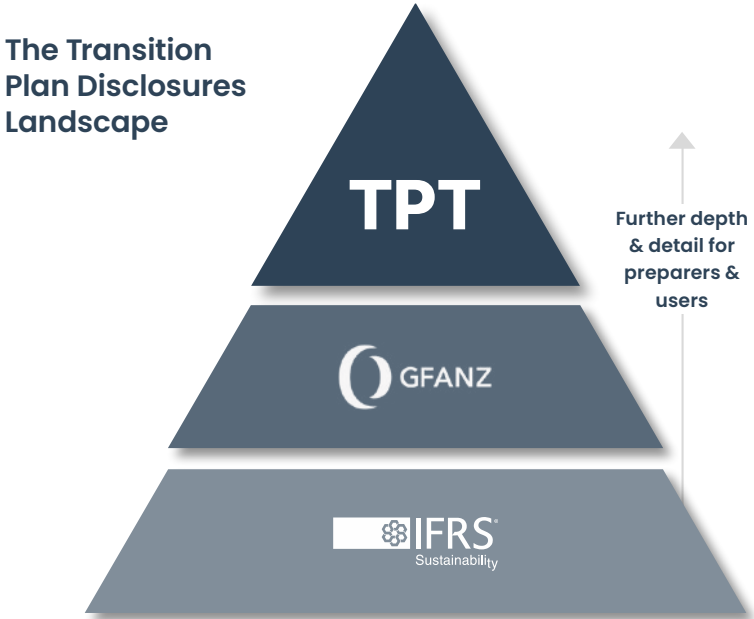
GFANZ has also stated that over 40% of world’s private finance has committed to net zero, and that successfully realising these net-zero commitments requires financial

institutions to support the real economy with products and services or, in some cases, closely collaborate with the real economy and provide financial products and services to facilitate real-world GHG emissions reductions.



**Figure 7:** GFANZ Financial Institution Net-Zero Transition Plan Framework as part of strategy and planning | Source: GFANZ

On the other hand, the TPT Disclosure Framework,<sup>121</sup> as the name suggests, focuses on the disclosure of transition plans and builds on IFRS S2 and GFANZ strategic transition plan frameworks and guidance.

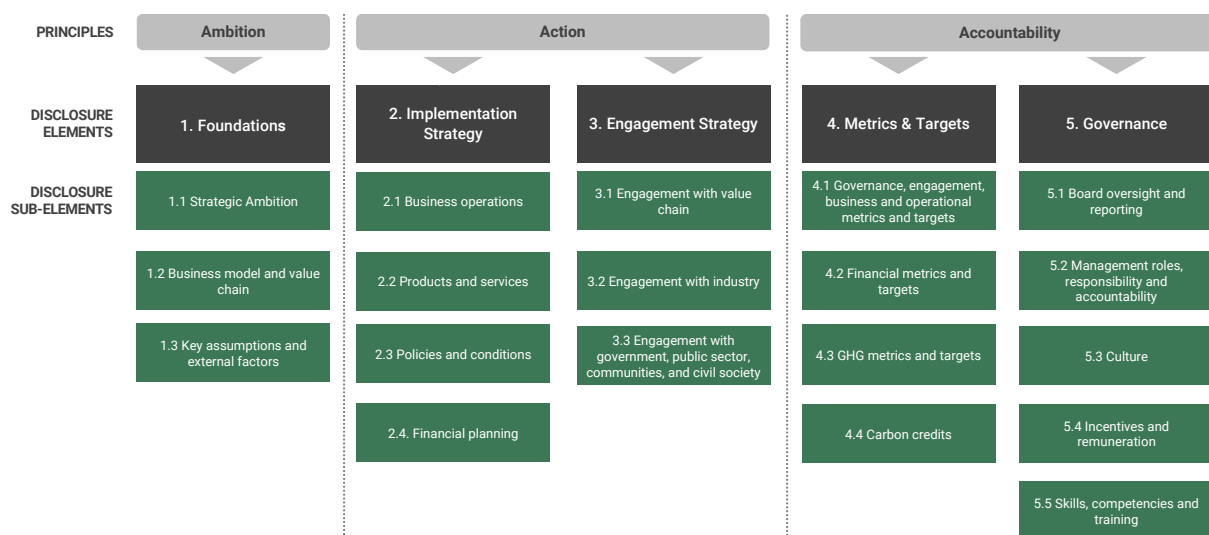


**Figure 8:** The Transition Plan Disclosures Landscape | Source: TPT

121 TPT (2023): TPT Disclosure Framework [transitiontaskforce.net/wp-content/uploads/2023/10/TPT\\_Disclosure-framework-2023.pdf](https://transitiontaskforce.net/wp-content/uploads/2023/10/TPT_Disclosure-framework-2023.pdf)

The diagram below outlines the various elements of the sector-neutral TPT Disclosure Framework, building on TCFD, ISSB and GFANZ frameworks and guidance.

It is important to note that there are other actors in the broader transition plan disclosures landscape, including regional and international actors such as the European Financial Reporting Advisory Group (EFRAG) and its work related to the European Sustainability Reporting Standards (ESRS) and transition plans.

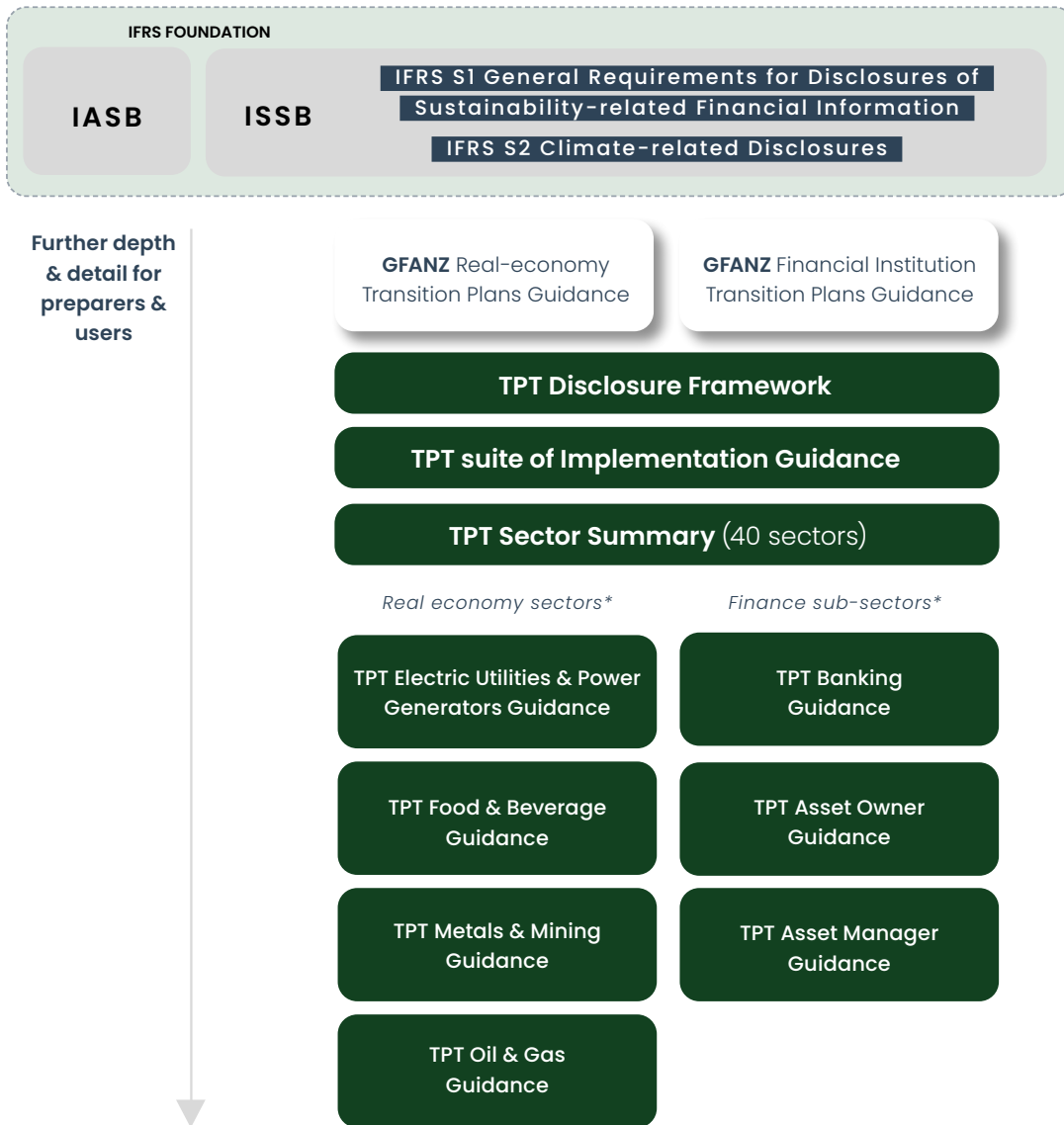


**Figure 9:** Elements of the TPT Disclosure Framework | Source: TPT

Furthermore, the TPT has produced deep-dive guidance for several industries in the financial sector (e.g., banking, investment) and sectors in the real economy (e.g., food & beverage, electric utilities & power generators, metals & mining, oil & gas); sector summaries on transition plan guidance for 30 financial and real economy sectors; and guidance on the transition planning cycle, among others.

The diagram below shows the sectors for which the TPT provides sector-specific guidance and summaries. While the various elements of the TPT Disclosure Framework are relevant to all sectors, additional guidance is offered for certain elements due to the unique features or economic roles of specific sectors.

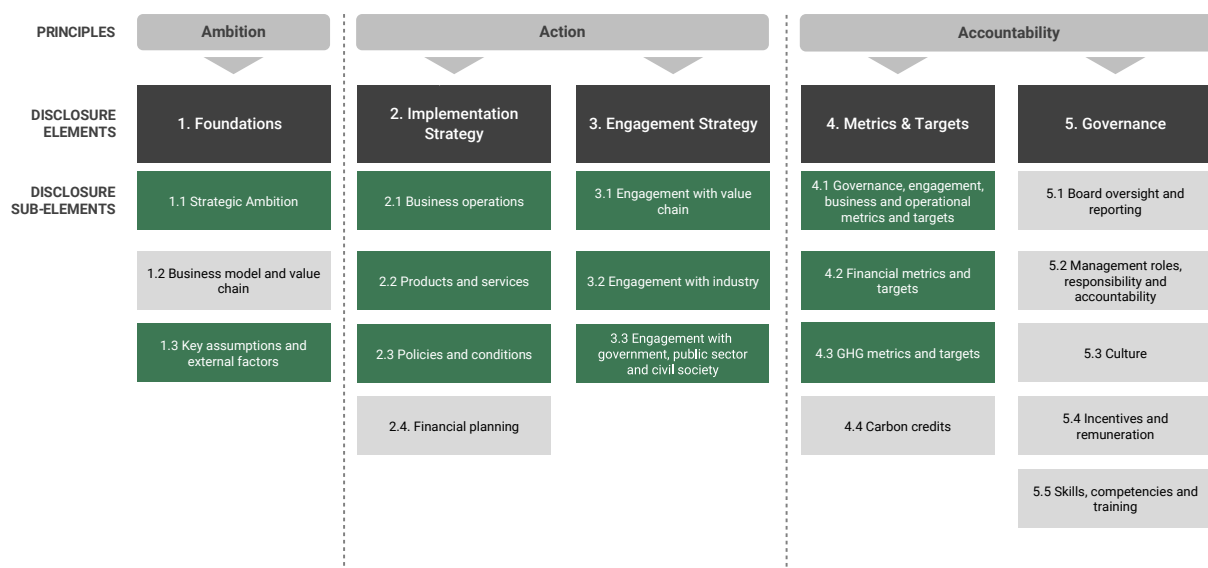
## The Transition Plan Disclosures Landscape: how preparers can use the outputs of ISSB, GFANZ, and TPT



**Figure 10:** The Transition plan disclosures landscape: How preparers can use the outputs of ISSB, GFANZ, and TPT<sup>122</sup> | Source: TPT

122 TPT (2023): TPT Disclosure Framework [transitiontaskforce.net/wp-content/uploads/2023/10/TPT\\_Disclosure-framework-2023.pdf](https://transitiontaskforce.net/wp-content/uploads/2023/10/TPT_Disclosure-framework-2023.pdf)

The diagram below shows the elements of the TPT Disclosure Framework for which deep-dive guidance is available for asset owners. This guidance is relevant to insurance companies in their role as institutional investors. The TPT deep-dive guidance for asset managers is also relevant to insurance companies that have asset management firms.



**Figure 11:** Sub-elements selected for interpretation in the TPT Asset Owner Guidance<sup>123</sup> | Source: TPT

As mentioned above, in June 2024, the IFRS Foundation announced that it will assume responsibility for the disclosure-specific materials developed by the TPT, marking an important milestone in the creation of global norms for transition plan disclosure.

123 TPT (2024): Asset Owner sector guidance [transitiontaskforce.net/sector-guidance/asset-owners](https://transitiontaskforce.net/sector-guidance/asset-owners)

# 5. Integrating key features of the insurance business and relevant sustainability issues into transition plans

As with companies in all other sectors of the economy, insurance companies need to develop transition plans which take into account their distinctive features and critical role in supporting a just transition to a resilient net-zero economy. This section provides an overview of the key features of the insurance business which are material to the development of credible transition plans by insurance companies.

There is a growing recognition of the extent to which insurance companies can influence the reduction of emissions—and, correspondingly, financial climate-related risks—in the real economy through their underwriting activities and the insurance products and services they offer, extending beyond the impact of their investment activities. While many features are unique to the insurance industry compared to other sectors, including different industries within the financial sector such as banking and investment management, the following characteristics are particularly relevant when developing transition plans.

## 5.1 Lines of insurance business

There are many ways of categorising the insurance business, each based on a different perspective on how coverage is structured and provided:

- a. **Insurance and reinsurance**, where insurance can be coverage for individuals, corporates, governments and other entities in the private, public and mutual sectors, while reinsurance is coverage provided to insurance companies (i.e. insurance for insurers). Insurance can also be **co-insurance** (two or more insurers involved), while reinsurance can either be **facultative or treaty reinsurance**. There are also alternative risk transfer solutions, such as **insurance-linked securities** (e.g., catastrophe bonds, pandemic bonds) which secure insurance or reinsurance coverage via the capital markets

- b. By type of risks insured, with the two main branches being **non-life insurance** (also known as property and casualty insurance or general insurance) **and life & health insurance**<sup>124</sup>
- c. According to **short-tail lines and long-tail lines**, which are distinguished by the period of time between the occurrence of a loss and payment of a claim. For example, auto own damage insurance and home insurance are generally viewed as short-tail lines, while liability and marine insurance as long-tail lines
- d. By type of policyholder, with **commercial lines** providing coverage for companies, and **personal lines** providing coverage for individuals. Insurance can also be categorised by the amount of coverage. For example, **microinsurance** products aimed at low-income communities provide lower coverage limits compared to traditional insurance products
- e. Whether the payout is based on **indemnity insurance or parametric insurance** (also known as index-based insurance). Under indemnity insurance, the payout is based on the actual loss incurred by the policyholder. Indemnity insurance claims can take longer to assess and process compared to parametric insurance claims. Under parametric insurance, the payout is based on a pre-determined parameter or index being triggered, such as the amount of rainfall or the windspeed, thereby usually resulting in faster payouts

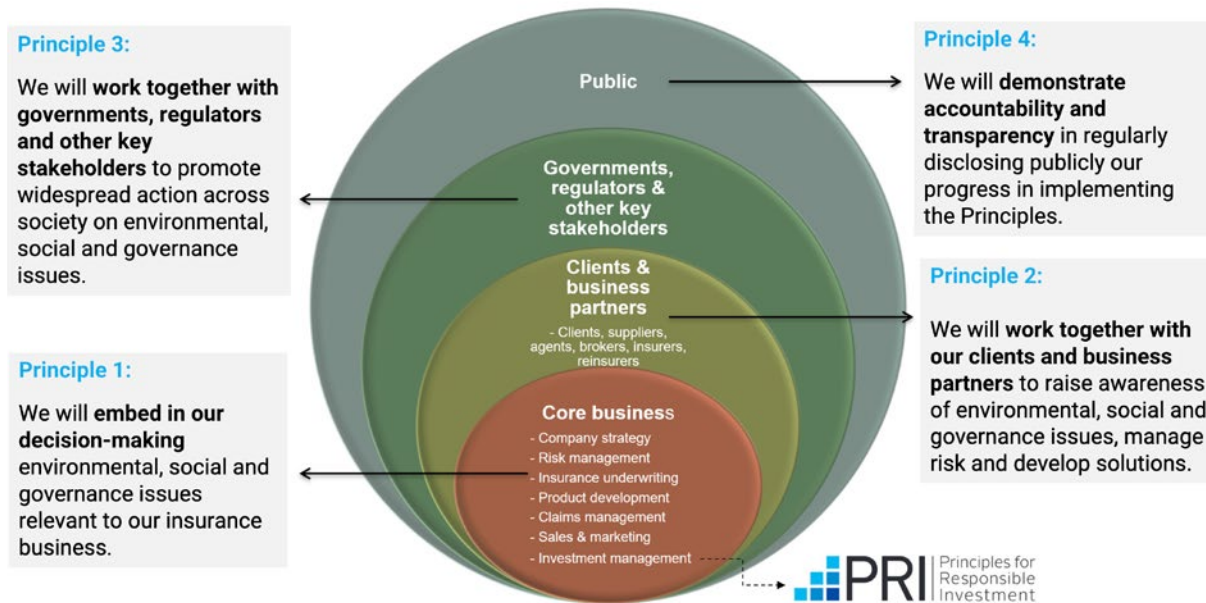
Standards, frameworks and guidance related to emissions associated with insurance and reinsurance underwriting portfolios, whether on emissions accounting, target setting or transition plans, should recognise the unique features of insurance across lines of business, which are distinct from other types of financial activities such as lending and investment.

## 5.2 Activities in the insurance value chain

The levers that an insurance company can use to tackle a wide range of sustainability risks and opportunities can be structured across its spheres of its influence. This is the same logic behind the design and structure of the UN Principles for Sustainable Insurance (PSI), the global sustainability framework for the insurance industry, and the largest collaborative initiative between the UN and the insurance industry.

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<sup>124</sup> In some jurisdictions, health insurance is categorised under non-life insurance



**Figure 12:** The UN Principles for Sustainable Insurance<sup>125</sup> based on the spheres of influence of an insurance company

In line with the sphere-of-influence structure of the PSI, the following is a range of possible actions by insurance companies as risk managers and risk carriers that can accelerate and scale up a just transition to a resilient net-zero economy, and how these actions can contribute to tackling interconnected, climate-related sustainability risks, opportunities and challenges such as nature loss and pollution:<sup>126</sup>

- a. **Embedding net-zero and decarbonisation-related risk criteria in risk management frameworks** (e.g., sustainability risk management frameworks<sup>127</sup>) applicable to underwriting portfolios to systematically assess GHG emissions across industry sectors and lines of insurance business; and to respect and promote human rights, including the right to Free, Prior and Informed Consent (FPIC),<sup>128</sup> particularly for indigenous peoples and vulnerable communities. Insurers can also help clients and communities understand, prevent and reduce climate-related physical, transition and litigation risks through their expertise in risk research and analytics, natural catastrophe risk models and loss prevention measures (e.g., flood, cyclone, drought, extreme heat, wildfire and health risk reduction; disaster and pandemic preparedness)

<sup>125</sup> On investment management, the possible action under Principle 1 of the PSI is to “Integrate environmental, social and governance issues into investment decision-making and ownership practices (e.g., by implementing the Principles for Responsible Investment)”. See [unepfi.org/insurance/insurance/the-principles/](https://unepfi.org/insurance/insurance/the-principles/)

<sup>126</sup> Many of these possible actions are also recognised in relevant work of key stakeholders, including civil society organisations. For example, see WWF (2023): Underwriting our planet: How insurers can help address the crises in climate and biodiversity [wwf.ch/sites/default/files/doc-2023-09/WWF\\_Deloitte\\_Insurance\\_Biodiversity\\_Climate\\_2023.pdf](https://www.ch/sites/default/files/doc-2023-09/WWF_Deloitte_Insurance_Biodiversity_Climate_2023.pdf)

<sup>127</sup> For example, see: UNEP (2020) Managing environmental, social and governance risks in non-life insurance business [unepfi.org/industries/insurance/managing-environmental-social-and-governance-risks-in-non-life-insurance-business/](https://unepfi.org/industries/insurance/managing-environmental-social-and-governance-risks-in-non-life-insurance-business/) and UNEP (2022): Managing environmental, social and governance risks in life & health insurance business [unepfi.org/industries/insurance/managing-environmental-social-and-governance-risks-in-life-health-insurance-business/](https://unepfi.org/industries/insurance/managing-environmental-social-and-governance-risks-in-life-health-insurance-business/)

<sup>128</sup> As articulated in the UN Declaration on the Rights of Indigenous Peoples

- b. Setting underwriting policies, criteria and guidelines** for the most GHG-emitting and most GHG-intensive activities (e.g., including but not limited to activities involving fossil fuels and deforestation) within underwriting portfolios in order to incentivise clients and potential clients to adopt net-zero practices (e.g., zero and low-emission technologies, infrastructure, transportation and buildings). By setting underwriting criteria that enable low-emission and zero-emission activities and tackle the most GHG-emitting and most GHG-intensive activities, insurers can influence the behaviour of clients and potential clients seeking coverage. Insurers can review their entire underwriting portfolio's GHG emissions and determine how they can adjust their underwriting portfolio to achieve net zero emissions across their portfolio. This also includes the underwriting of climate-related hazards and perils, as well as measures that support adaptation and build resilience to the adverse physical impacts of climate change
- c. Engaging with clients, potential clients and suppliers**, particularly those with the most GHG-emitting and most GHG-intensive activities, on their decarbonisation strategies and transition plans, as well as how they can adapt and build resilience to the adverse physical impacts of climate change. Insurers can ask their clients and potential clients to develop and use transition plans that go beyond the one-year insurance renewal timeframe and convey what they would expect them to do to be more climate resilient, and what insurance products and services can support their transition. Such engagement activities enable insurers to gain new risk knowledge and insights, and foster dialogue on how insurers can support their clients' and suppliers' transition, including by making new climate solutions and enabling technologies insurable through risk reduction measures. They can also offer incentives to clients, potential clients and suppliers to adopt sustainable practices that support a just transition to a resilient net-zero economy
- d. Developing insurance products and solutions** for low-emission and zero-emission technologies, infrastructure and transportation (e.g., solar and wind farms, green hydrogen, long-duration energy storage, carbon capture and storage, green buildings, electric vehicles), low-emission lifestyles, usage-based insurance that reduces emissions and pollution (e.g., pay-as-you-drive motor insurance), nature-based solutions (e.g., insurance for forests, coral reefs, mangroves, wetlands), insurance for risks in transitioning to sustainable practices (e.g., sustainable farming). insurance for carbon reversals and shortfalls and unintended emissions; climate risk insurance for households, businesses, public entities and governments; microinsurance covering health, agriculture/crop, livelihood and property risks of low-income communities; and insurance covering climate-related property and business interruption risks of micro, small and medium-sized enterprises (MSMEs)
- e. Managing claims sustainably**, such as repairs and replacement options that use sustainable materials, used parts, or produce zero or lower GHG emissions; value, conserve, restore and wisely use biodiversity and ecosystem services; reduce or eliminate pollution and waste; promote a circular economy; and build back better and greener through more resilient and sustainable materials and standards

- f. Advocating for and engaging in governmental policies** for a science-based and socially just transition of economic sectors to net zero. This would include engaging with national-level governments on their Nationally Determined Contributions (NDCs), including national sectoral pathways needed to achieve NDCs. NDCs are at the heart of the Paris Agreement and the achievement of its long-term goals as they embody efforts by each country to reduce national emissions and adapt to the impacts of climate change. Insurers are well positioned to advise governments and regulators on the growing risk of loss due to climate change, its impacts on the ability of insurers to continue providing insurance and on price, and the need to accelerate the transition of the economy to net zero in order address the underlying driver of increased risk and losses faced by insurers. Insurers can also advocate for improved policy from legislators and regulators which supports climate risk reduction (e.g., more effective land-use planning, zoning and building codes, ecosystem-based disaster risk reduction, public-private partnerships to manage flood or drought risk, disaster preparedness, as well as pandemic prevention, preparedness and response; climate-sensitive disease and health risk management systems, climate-health information services, climate-ready health workforces)
- g. Collaborating with key stakeholders** (e.g., indigenous peoples, local communities, governments, wider financial and business community, insurance and financial regulators and supervisors, scientific and academic community; environmental, conservation and civil society organisations) on projects, programmes and initiatives that support and promote sustainability literacy and net-zero insurance practices, and accelerate and scale up a just transition to a resilient net-zero economy. This includes landscape approaches (including jurisdictional approaches) that involve the collaboration of stakeholders in a landscape to advance shared sustainability goals and build resilience, and aims to reconcile and optimise multiple economic, social and environmental objectives across multiple economic sectors and land uses. Such approaches are implemented through land-use plans, policies, initiatives, long-term investments, and other interventions<sup>129</sup>
- h. Disclosing the organisation's Scopes 1, 2 and 3 GHG emissions and climate-related impacts, risks and opportunities** to internal and external stakeholders using relevant risk management, accounting and disclosure frameworks (e.g., ESRS, GRI, ISSB, PCAF, SBTi, TNFD) in order to promote accountability and transparency of the organisation's net-zero and climate-related performance and progress, demonstrate corporate responsibility and sustainability, and show alignment with the goals and targets of the Paris Agreement

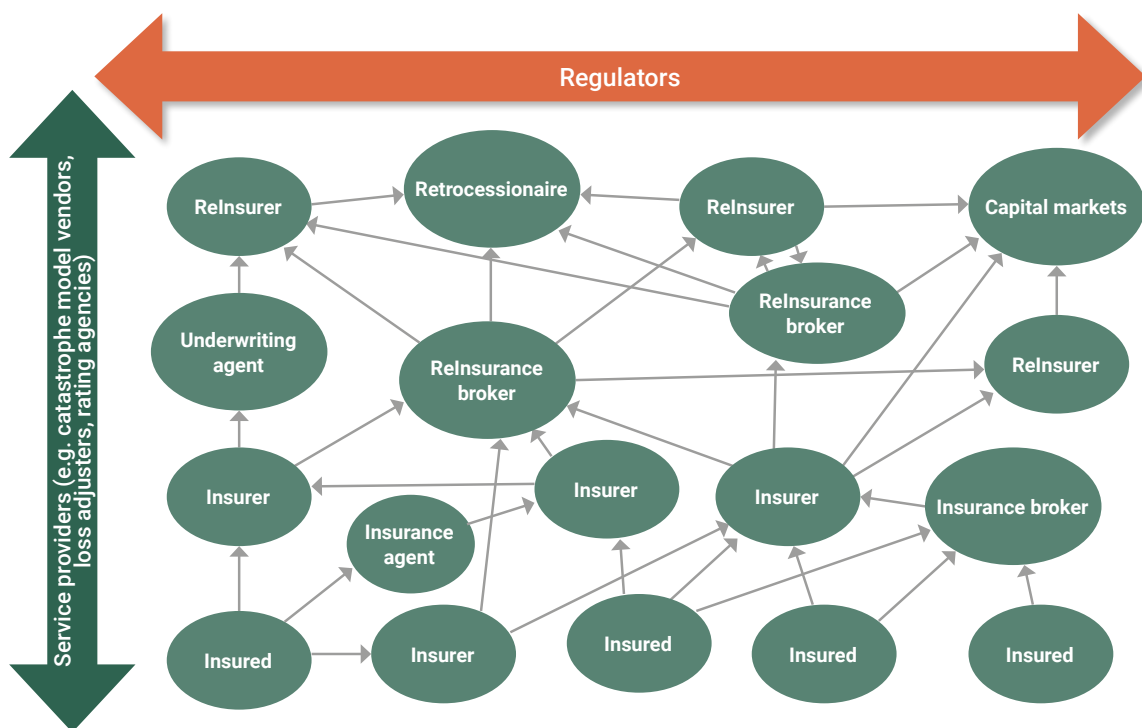
As mentioned in Section 1, investment activities of insurance companies are not part of the scope of this paper but are part of the third deliverable of the FIT Transition Plan Project. In the interim, existing TPT guidance for asset owners (applicable to insurance companies as institutional investors) and asset managers (applicable to insurance companies with asset management firms) are useful resources.

<sup>129</sup> CDP (2022): Landscape and jurisdictional approaches: Opportunities to finance a nature-positive net-zero transition [cdn.cdp.net/cdp-production/comfy/cms/files/files/000/007/019/original/CDP\\_CM\\_Factsheet\\_2022.pdf](https://cdn.cdp.net/cdp-production/comfy/cms/files/files/000/007/019/original/CDP_CM_Factsheet_2022.pdf)

## 5.3 Actors in the insurance value chain

It is important to understand that insurance is not only a risk transfer mechanism to compensate financial losses, but also a risk management mechanism because insurers support their clients in carrying out risk reduction and loss prevention measures in conducting their business. Since certain risks are too large to be borne by an individual insurer, these risks are often spread in a complex risk-sharing system comprising many players. Historically, and it is still true today, the underlying principle of “sharing the risks of the few among the many” through insurance underwriting, has supported societal and economic resilience.<sup>130</sup>

Figure 13 illustrates the different players that spread risks within the insurance industry through insurance, reinsurance (insurance for insurers), and retrocession (reinsurance for reinsurers).



**Figure 13:** How risks are spread in the insurance industry | Source: UNEP

Insurers, reinsurers and retrocessionaires are all known as **risk carriers** as they are the ones who put capital at risk and ultimately pay claims. Insurance agents and insurance brokers provide services to insureds and insurers—ensuring that they understand and can access the most appropriate insurance cover for their needs—with agents representing insurers, and brokers representing insureds. Similarly, reinsurance brokers and reinsurance underwriting agents provide services to insurers, reinsurers and retrocessionaires. The common denominator for agents and brokers in the system is that they are all **intermediaries** who act as channels in spreading risks. There are other service providers (e.g.,

130 UNEP (2022) Insuring the net-zero transition: Evolving thinking and practices [unepfi.org/wordpress/wp-content/uploads/2022/04/Insuring-the-net-zero-transition.pdf](https://www.unepfi.org/wordpress/wp-content/uploads/2022/04/Insuring-the-net-zero-transition.pdf)

catastrophe model vendors, loss adjusters, rating agencies), but they are not directly involved in the risk-sharing process. Finally, this risk-sharing system (including via the capital markets) is overseen by insurance and financial regulators and supervisors.<sup>131</sup>

There are also captive insurance companies, which serve as a natural nexus between the global financial system and the real economy. As licensed and regulated insurance companies, they maintain a legitimate position in the financial ecosystem since they have many of the same expectations placed upon them as a commercial and retail insurers and other financial institutions. However, by most recognised definitions, a captive insurer typically has one primary insured entity—its parent organisation.<sup>132</sup> Captive insurers also engage with the commercial insurers, reinsurers and brokers to spread risks and manage their risk exposure.

Other key actors include insurtech firms, banks, microfinance institutions and cooperatives, who play key roles in distributing insurance products and making them more accessible and cost-effective, and in aggregating demand for insurance.

Insurance-specific guidance on transition plans should recognise the distinct and proportional roles of the various actors in the insurance value chain in supporting a just transition to a resilient net-zero economy, as described above (e.g., insurers, reinsurers, brokers). For example, to date, there has been insufficient attention and focus on the role of brokers in the transition.

The guidance should also recognise the interests and needs of certain insurers, as shown in the examples below:

- **Small and medium-sized insurers:** Insurance-specific guidance on transition plans should be proportionate. Where possible, the guidance should consider tailored support and targeted guidance to help small and medium-sized insurers develop and implement transition plans
- **Insurers in emerging markets and developing countries:** Proportionate guidance should consider the specific conditions of insurers and their clients in developing countries. In addition, gaps in data are likely to be more prevalent in the Global South. Tailored support, guidance, and technical assistance to help insurers in these countries develop and implement transition plans should include context-specific solutions that address the unique challenges they face
- **Insurers with portfolios with a large proportion of micro, small and medium-sized enterprises (MSMEs):** In general, the availability and quality of data on MSMEs is likely to be less compared with large corporates. This will have an impact on net-zero-related activities by insurers
- **Insurers writing specific lines of business only** where there are, on balance, a need for greater understanding and practice on their roles in supporting a just transition to a resilient net-zero economy, and in addressing interconnected, climate-related

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131 Ibid

132 Aon (2022): Using a captive insurance company to drive positive ESG outcomes—And how the UN Environment Programme’s Principles for Sustainable Insurance can help captive owners address ESG risks and opportunities [aon.com/insights/reports/2022/using-captive-insurance-to-drive-positive-esg-outcomes](https://aon.com/insights/reports/2022/using-captive-insurance-to-drive-positive-esg-outcomes)

sustainability issues such as protecting nature and biodiversity, and preventing pollution via a circular economy (e.g., insurers who write personal lines insurance, life & health insurance)

## 5.4 Role of insurance in de-risking the transition to a net-zero economy

Amid the global challenge of a widening protection gap (i.e. the difference between economic and insured losses), there is a growing need for the insurance industry to innovate through insurance solutions that support the transition to net zero, or “transition insurance”. Recent research indicates that global insurance premiums for climate resilience and natural catastrophe protection should increase by 50% by 2030. It also underscores the role of insurance in mobilising the climate transition, estimating that over half of the USD 19 trillion already committed to financing the climate transition through to 2030 will require additional insurance coverage.<sup>133</sup>

Significant methodological and financing challenges remain to mobilise capital toward areas of the economy critical to the transition. To meet some of these challenges, the GFANZ Net-Zero Transition Plan Framework (NZTP) published in 2022, defined transition finance and identified the four key transition financing strategies that financial institutions, real economy companies, and governments need to support to enable an orderly and inclusive whole-economy transition:<sup>134</sup>

- **Climate solutions:** Entities and activities that develop and scale climate solutions
- **Aligned:** Entities that are already aligned to a 1.5 degrees Celsius pathway
- **Aligning:** Entities committed to transitioning in line with 1.5 degrees Celsius-aligned pathways
- **Managed phaseout:** The accelerated managed phaseout of high-emitting physical assets

Akin to the aims of transition finance, “transition insurance” can be viewed as insurance capacity allocated to entities, activities or assets that support the goals of the Paris Agreement. Transition insurance can be applicable to many lines of business (across non-life and life & health insurance) and focuses on climate solutions and enablers, including low, zero or negative-emission solutions, technologies and projects; or activities contributing to the early retirement and managed phaseout of high-emitting or emissions-intensive assets or activities. Transition insurance can target portfolio corporates or individual clients, offering them enhanced support to advance their climate objectives through underwriting terms and conditions. It can also target new clients with climate-compatible business models or practices. Transition insurance can be asso-

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133 Howden & BCG (2024): The bigger picture: The \$10 trillion role of insurance in mobilising the climate transition [howdengroup.com/sites/huk.howdenprod.com/files/2024-06/the-bigger-picture-whitepaper.pdf](https://howdengroup.com/sites/huk.howdenprod.com/files/2024-06/the-bigger-picture-whitepaper.pdf)

134 GFANZ (2023): A GFANZ Secretariat technical review note: Scaling transition finance and real-economy decarbonisation [assets.bbhub.io/company/sites/63/2023/11/Transition-Finance-and-Real-Economy-Decarbonization-December-2023.pdf](https://assets.bbhub.io/company/sites/63/2023/11/Transition-Finance-and-Real-Economy-Decarbonization-December-2023.pdf)

ciated with transition finance to the extent that the insurance coverage provided helps de-risk investments in and financing for low, zero or negative-emission solutions, technologies and projects.

## 5.5 Role of insurance in supporting climate change adaptation and building resilience

Climate change adaptation and mitigation are two sides of the same coin. They can be both viewed from a risk reduction lens. Adaptation and building resilience entail coping with the physical impacts of climate change through, for example, disaster risk reduction measures and insurance as a financial shock absorber. Climate change mitigation and the transition to a net zero emissions economy can also be viewed as risk reduction as it addresses the root cause of climate change—GHG emissions.<sup>135</sup>

The transition to a net-zero economy will not be possible without communities, cities and countries being resilient to the increasing frequency and severity of extreme weather events exacerbated by climate change, such as floods, cyclones, droughts, extreme heat and wildfires; as well as by climate-sensitive health risks such as zoonotic and vector-borne diseases. This entails the urgent need for people, health systems, livelihoods, homes, businesses, transportation, food and agriculture systems, and infrastructure, among others, to become climate resilient.

As highlighted in previous sections, as risk managers, insurers help communities understand, prevent and reduce climate-related risks through their expertise in risk research and analytics, natural catastrophe risk models and loss prevention measures. For insurers to play a more effective role in advancing adaptation and building resilience, they will need access to better data across the key determinants of climate and disaster risk: hazard, exposure and vulnerability.

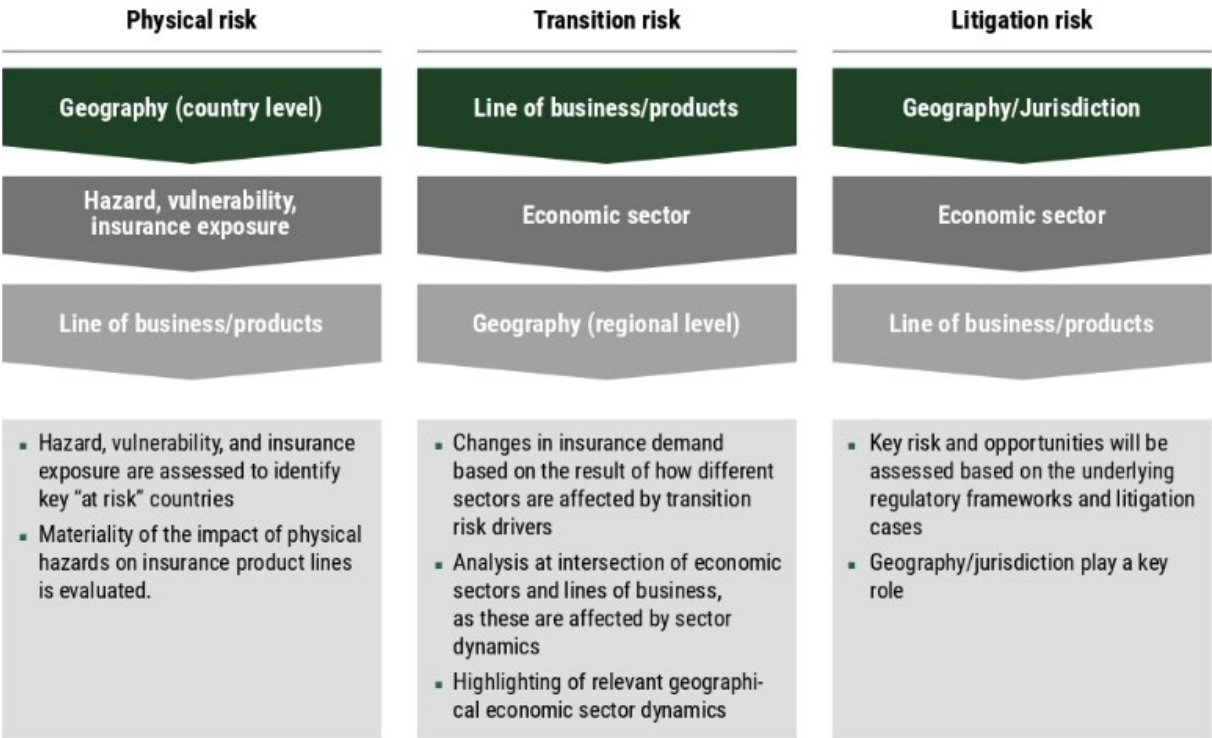
Insurers can also advocate for improved policy from legislators and regulators which supports climate change adaptation. Examples include more effective land-use planning, zoning and building codes, ecosystem-based disaster risk reduction, disaster preparedness; as well as pandemic prevention, preparedness and response; climate-sensitive disease and health risk management systems, climate-health information services, and climate-ready health workforces. These risk reduction measures impact the affordability, accessibility and availability of insurance and reinsurance across markets. As risk carriers, insurers protect households, businesses, public entities and governments by absorbing the financial and economic shocks related to extreme weather events, be it via indemnity insurance, parametric insurance, or insurance-linked securities such as catastrophe bonds and pandemic bonds.

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135 Bacani, B. (2024): The triple planetary crisis is an unprecedented generational opportunity (Introduction for Insurance Day's special report on climate adaptation and resilience) [insuranceday.com/ID1149109/Triple-planetary-crisis-is-an-unprecedented-generational-opportunity](https://insuranceday.com/ID1149109/Triple-planetary-crisis-is-an-unprecedented-generational-opportunity)

It is also worth noting the risk of certain markets and regions becoming uninsurable because of climate change. This makes adaptation and resilience a vital issue not only for the insurance industry, but also for society at large.

Given that managing risk is the core business of insurers, understanding how insurers will adapt their business models, strategies, operations, and products and services amid a changing climate is an important element of an insurance company’s transition plan. For example, in 2021, UNEP’s Principles for Sustainable Insurance Initiative (PSI) published a pioneering report, “Insuring the climate transition: Enhancing the insurance industry’s assessment of climate change futures,” capturing the key findings of the largest collaborative effort by insurers to pilot some of the most challenging TCFD recommendations. The multiyear project entailed piloting state-of-the-art approaches—particularly the use of climate change scenarios—to better assess climate-related physical, transition and litigation risks in the insurance business.<sup>136</sup>



**Figure 14:** An initial framework to support an integrated approach to assessing climate-related risks | Source: UNEP

136 UNEP (2021): Insuring the climate transition: Enhancing the insurance industry’s assessment of climate change futures [unepfi.org/psi/wp-content/uploads/2021/01/PSI-TCFD-final-report.pdf](https://unepfi.org/psi/wp-content/uploads/2021/01/PSI-TCFD-final-report.pdf)

## 5.6 Role of insurance in supporting a just transition

A just transition to a resilient net-zero economy is a key component in ensuring solidarity in dealing with the social impacts of climate change, particularly impacted groups such as workers, communities, supply chains and customers. Potential consequences of an unjust transition can include an even wider insurance protection gap (i.e. the gap between economic and insured losses), the lack of access to affordable insurance, and an increase in claims and liabilities due to social unrest or economic instability.

The work done by the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science has articulated that net zero is a goal that is designed for people and has to be realised by people. The fundamental purpose of building a net-zero economy is to protect people from the harm, loss and damage caused by uncontrolled climate change. People need to be at the heart of the transition to a resilient net-zero economy and contribute to the process. In this vein, their work has identified three key factors for financial institutions to consider in the design and delivery of their transition plans:<sup>137</sup>

1. **Anticipate, assess and address the social risks of the transition.** The just transition is about understanding and acting on the distributional implications of net zero for people. Transition plans should be designed to ensure costs and benefits are allocated fairly, particularly so that vulnerable and marginalised communities do not bear the burden of change. Therefore, the potential social risks of transition finance (including insurance) need to be assessed and addressed so that no one is left behind
2. **Identify and enable the social opportunities of the transition.** The transition can also be shaped to deliver positive social impacts for workers, communities and consumers. Transition plans should explore how financial institutions can seize the social opportunities of net zero, for example, to create green jobs with decent work, to eradicate energy and fuel poverty and reduce longstanding inequalities (e.g., around income, gender and race)
3. **Ensure meaningful dialogue and participation in net-zero planning.** The just transition is a process as well as an outcome, with a focus on procedural justice that means that financial sector net-zero plans should support social dialogue with workers and the participation of other affected stakeholders. This should include proactive efforts to empower excluded groups. Financial institutions must also ensure they are lending to, investing in, and insuring companies that are pursuing an inclusive approach

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137 Curran B., Robins N., Muller S., Subramoni A. and Tickell S. (2022): Making transition plans just: How to embed the just transition into financial sector net-zero transition plans. London: Grantham Research Institute on Climate Change and the Environment, London School of Economics and Political Science [lse.ac.uk/granthaminstitute/wp-content/uploads/2022/10/Making-Transition-Plans-Just-2.pdf](https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/10/Making-Transition-Plans-Just-2.pdf)



**Figure 15:** Key just transition factors and stakeholders to be considered in net-zero transition plans<sup>138</sup> | Source: Grantham Research Institute on Climate Change and the Environment, London School of Economics and Political Science

Another key consideration in a just transition is the principle of “common but differentiated responsibilities,” which the Paris Agreement adheres to. This principle means that while there is a duty on all countries to take climate action, the types of action they take will depend on their differing national circumstances. The flexibility inherent in the Paris Agreement has meant that, so far, some countries have pledged to cut their net climate emissions to zero by 2050, while other countries have set other goals. The Paris Agreement also reaffirms that developed countries should take the lead in providing financial assistance to developing countries, so they can take adequate measures to fight climate change, including investing in adaptation measures.<sup>139</sup>

According to the University of Oxford’s Net-Zero Platform, the need for an equitable transition has at least three main implications:

- Some countries may need to reach net zero faster, to compensate for those that may take longer to reach net zero
- Different countries will need to chart their paths to net zero based on their own specific national circumstances and constraints
- Developing countries will require financial, technological and capacity building support in reaching net zero

<sup>138</sup> Ibid

<sup>139</sup> UN Climate Change (UNFCCC) (2021): The explainer: The Paris Agreement [unfccc.int/news/the-explainer-the-paris-agreement](https://unfccc.int/news/the-explainer-the-paris-agreement)

Taking into account the considerations mentioned above, insurance companies can play a crucial role in enabling a just transition by helping ensure that the shift to a resilient net-zero economy is inclusive and fair for all stakeholders, across developing and developed countries around the world. A fundamental first step is to embed the principles of a just transition in their transition plans. This includes respecting the International Labour Organization's (ILO) core labour standards, the UN Declaration on the Rights of Indigenous Peoples (UNDRIP), the principle of Free, Prior and Informed Consent (FPIC), the OECD's Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, and the UN Sustainable Development Goals (SDGs). It is important to note that universal values are what enable the SDGs to be truly transformative, by placing people and their inherent dignity at the heart of development efforts, empowering all people to become active partners in this endeavour. Implementing the SDGs is premised on three universal principles:

- Human rights-based approach: Respecting international human rights law
- Leaving no one behind: Reaching out to those that are furthest behind first
- Gender equality and women's empowerment: Eliminating gender inequalities and all forms of discrimination

By considering the social impacts of climate change, insurers can develop insurance products and services that protect vulnerable people, workers, communities, supply chains and customers who may be disproportionately affected by the transition. Given the role of insurance in addressing adaptation, resilience and loss and damage, transition plans of insurers, especially insurers operating in low-income and vulnerable communities throughout the world, can consider insurance solutions that are suitable for vulnerable communities and help close the insurance protection gap. Among others, these can include microinsurance, unemployment insurance, life and health insurance, and climate risk insurance for micro, small and medium-sized enterprises.

## Box 2: Protecting MSMEs in the most climate-vulnerable countries<sup>140</sup>

To help close the insurance protection gap, UN Environment Programme's (UNEP) Principles for Sustainable Insurance Initiative (PSI) has a unique partnership with the Vulnerable Twenty Group of Ministers of Finance (V20). The V20—originally 20 and now 68 climate-vulnerable nations in the Global South—has a combined population of 1.7 billion, a 5% share of global emissions and GDP of USD 3.8 trillion.

A 2022 V20 report revealed within a span of two decades (2000 to 2019), climate change wiped out 20% of the collective GDP of V20 economies. Micro, small and medium-sized enterprises (MSMEs) are the backbone of V20 economies. They contribute 20% to 70% of GDP and export revenues and make up more than 80% of businesses. But MSMEs are constantly threatened by escalating climate risks.

140 Bacani, B. (2024): The triple planetary crisis is an unprecedented generational opportunity (Introduction for Insurance Day's special report on climate adaptation and resilience) [insuranceday.com/ID1149109/Triple-planetary-crisis-is-an-unprecedented-generational-opportunity](https://insuranceday.com/ID1149109/Triple-planetary-crisis-is-an-unprecedented-generational-opportunity)

Insurance can enhance risk management, absorb financial shocks and derisk cost-saving renewable energy and energy efficiency infrastructure. At the V20 Asia-Pacific meeting in Manila in 2017, UNEP broached the idea of the world's first vulnerable country-led insurance facility of its kind and conceptualised the V20 Sustainable Insurance Facility (V20-SIF). Working together with the V20 and Munich Climate Insurance Initiative (MCII) in the ensuing years, the V20 and UNEP announced the V20-SIF at the 2021 UN Climate Conference (COP26)—a project pipeline development facility to assist V20 economies scope the financial protection needs of MSMEs and facilitate concept and proposal development for funding vehicles.

A V20-SIF office hosted by the PSI was then set up with funding from Germany's Federal Ministry for Economic Cooperation and Development (BMZ), and UNEP completed its global team of experts last year. This is why at the 2023 UN Climate Conference (COP28), having developed a pipeline of projects spanning Africa, Asia-Pacific and Latin America and the Caribbean, UNEP shared lessons in the V20-SIF journey.

For example, UNEP believes that “demand aggregators”—such as banks, microfinance institutions, digital platforms, and agriculture buyers—are key to insuring MSMEs that form part of supply chains and loan portfolios. MSMEs are highly vulnerable to climate risks, creating costs to larger companies (demand aggregators) that trade with and rely on MSMEs to produce or sell goods or repay loans. Demand aggregators' financial performance is impacted by MSMEs' risks and most want to offer insurance. But costs in serving MSMEs—whether via demand aggregators, brokers or insurers—is a major barrier and must reduce significantly.

The V20-SIF's goal is not to do more market diagnostics or pilots, but to understand key elements that work and can be replicated to scale and speed up insurance solutions that build climate-resilient MSMEs.

It is important to recognise that climate-related disasters impact certain groups within communities and societies—such as women, girls and indigenous peoples—disproportionately owing to their pre-existing socio-economic vulnerabilities. UNEP estimates that 80% of people displaced by climate change are women. According to UNICEF, the devastating 2022 Pakistan floods alone left almost 650,000 pregnant women deprived of access to healthcare and were forced to give birth under the open sky. Therefore, the climate crisis is also a social injustice crisis, and climate action should address the plight of women and girls. This will support a just transition and foster community resilience.

In this regard, gender-responsive insurance strategies and practices can play a key role by considering gender differences in climate vulnerabilities and factoring them in insurance products and services. Gender-related data, strategies and systems at the company, regulatory and policy levels are key to driving gender-responsive practices.<sup>141</sup> A shining example of women's empowerment is the Philippine microinsurance journey,

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141 Bacani, B. (2024): [linkedin.com/feed/update/urn:li:activity:7208609889986744320/](https://www.linkedin.com/feed/update/urn:li:activity:7208609889986744320/)

which has been a resounding success because of women as risk-aware homemakers and entrepreneurs, and as microinsurance champions in low-income communities. By empowering women and driving social and financial inclusion, a local insurer, which has been recognised by many experts as a model on how microinsurance should be done, has covered 27 million lives—about 22% of the Philippine population of 119 million—and the door to insuring millions more is wide open.<sup>142</sup>

A transition plan that integrates the principles of a just transition helps ensure that human rights are respected, that the benefits of the net-zero transition are shared broadly, and that the costs are not unfairly borne by the most vulnerable populations.

## **5.7 Role of insurance in supporting the transition to a nature-positive economy, and how this supports a just transition to a resilient net-zero economy**

Nature loss is intimately connected to the world's response to the climate crisis, with biodiverse ecosystems (e.g., wetlands, forests) reducing GHG emissions as carbon sinks and building climate resilience (e.g., mangroves serving as a buffer for storm surge risk in coastal areas). Human activity in natural ecosystems is a significant source of GHG emissions. Emissions from agriculture, forestry and other land use (AFOLU) represent about a quarter of the emission reductions needed to reach net zero by 2050, and efforts to support and improve natural ecosystems can potentially provide a third of the emissions decrease needed.

Nature loss has far-reaching consequences and should be considered as part of robust and holistic transition planning. Damaged ecosystems exacerbate climate change, undermine food security, and put people and communities at risk. The adverse impacts of nature loss and degradation include the following:<sup>143</sup>

- Around 3.2 billion people, or 40 per cent of the global population, are adversely affected by land degradation
- Up to USD 577 billion in annual global crop production is at risk from pollinator loss
- Twenty-five per cent of global GHG emissions are generated by land clearing, crop production and fertilisation
- Development is putting animals and humans in closer contact increasing the risk of diseases like COVID-19 to spread. About 60 per cent of human infections are estimated to have an animal origin
- One hundred to three hundred million people are at increased risk of floods and hurricanes because of coastal habitat loss
- Declines in nature and biodiversity at current trajectories will undermine progress toward 35 out of 44 of the targets of UN Sustainable Development Goals (SDGs) related to poverty, hunger, health, water cities, climate, oceans and land.

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142 Alip, J. Chan, L. Yupangco, P. (2024): Covering nanay: The Philippine microinsurance journey

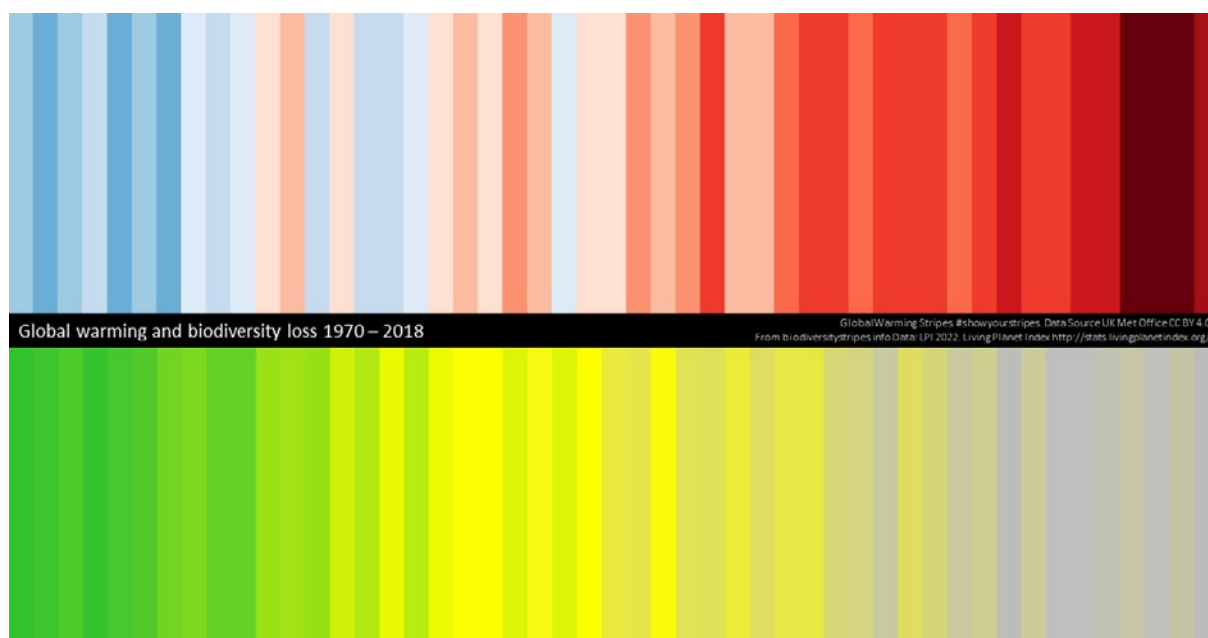
143 UNEP website: Facts about the nature crisis [unep.org/facts-about-nature-crisis](https://www.unep.org/facts-about-nature-crisis)

These impacts are relevant to various lines of insurance business (e.g., agriculture/crop, forestry, property, health, life), across all types of insurers, and across developing and developed countries.

The top five direct drivers of nature loss with largest global impact, starting with the most impact, are as follows:<sup>144</sup>

- Changes in land and sea use
- Direct exploitation of organisms
- Climate change
- Pollution
- Invasion of alien species

Therefore, it is evident that nature loss and climate change are inextricably interlinked, and that nature-related impacts and dependencies should be integrated in net-zero transition planning.



**Figure 16:** Global warming and biodiversity loss stripes (1970–2018)

While intimately connected to the climate crisis, protecting and restoring nature is crucial in and of itself. Our society, economies and financial systems are embedded in nature, not external to it. The prosperity and resilience of the insurance industry, policyholders, wider society and economies depend on the health and resilience of nature and its biodiversity. Healthy ecosystems are a prerequisite for the sustained flow of ecosystem services that societies and economies need to survive and flourish, and that every business depends on to generate cashflows, returns and profitability. There is growing

144 IPBES (2019): Summary for policymakers of the global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services. S. Díaz, J. Settele, E. S. Brondízio, H. T. Ngo, M. Guèze, J. Agard, A. Arneeth, P. Balvanera, K. A. Brauman, S. H. M. Butchart, K. M. A. Chan, L. A. Garibaldi, K. Ichii, J. Liu, S. M. Subramanian, G. F. Midgley, P. Miloslavich, Z. Molnár, D. Obura, A. Pfaff, S. Polasky, A. Purvis, J. Razzaque, B. Reyers, R. Roy Chowdhury, Y. J. Shin, I. J. Visseren-Hamakers, K. J. Willis, and C. N. Zayas (eds.). IPBES secretariat, Bonn, Germany. 56 pages. [doi.org/10.5281/zenodo.3553579](https://doi.org/10.5281/zenodo.3553579)

evidence that nature loss, and actions to address it, can present both risks and opportunities for business and financial institutions, including insurers.

In short, net zero and nature positive<sup>145</sup> will not be achieved in isolation as they are interconnected, mutually reinforcing each other. While the insurance industry will need to consider nature as part of their transition to net zero, this can also support the transition to a nature-positive economy. Integrating nature-related risks and opportunities into transition plan guidance for insurance companies will enable a more holistic and impactful approach to net zero.

### **Box 3: The advent of insurance for nature positive**

Insurance for nature positive<sup>146</sup> is a concept created and catalysed by studies and activities by UNEP's Principles for Sustainable Insurance Initiative (PSI) over the past decade in addressing nature-related risks, opportunities, dependencies, and impacts. These include tackling illegal, unreported, and unregulated (IUU) fishing, environmental pollution liability, plastic pollution, and high-impact hydro-power projects; protecting UNESCO World Heritage Sites; and building climate resilience by protecting ecosystems such as coral reefs and mangrove forests.<sup>147</sup> This work culminated in the agenda-setting PSI Nature-Positive Insurance Series in 2021 co-organised by the UN Convention on Biological Diversity (CBD), and the inclusion of nature-related risks in the first-ever environmental, social and governance (ESG) risk management guides for non-life insurance (2020) and life & health insurance (2022) produced by the PSI.

This was followed in 2023 by the pioneering PSI paper, "Nature-positive insurance: Evolving thinking and practices".

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145 The Nature Positive Initiative defines nature positive as a global societal goal to "halt and reverse nature loss by 2030 on a 2020 baseline and achieve full recovery by 2050" and "it means ensuring more nature in the world in 2030 than in 2020 and continued recovery after that".

146 According to the PSI, insurance for nature positive can be defined as risk management and insurance strategies, approaches, practices, products, services and solutions that address nature-related dependencies, impacts, risks and opportunities in order to value, conserve, restore and wisely use biodiversity and ecosystem services; and to promote economic, social and environmental sustainability. Insurance for nature positive aims to actively contribute to achieving the mission of the Kunming-Montreal Global Biodiversity Framework to halt and reverse nature loss by 2030, and its vision of a world living in harmony with nature by 2050.

147 See [unepfi.org/insurance/insurance/projects/nature-positive-insurance/](https://unepfi.org/insurance/insurance/projects/nature-positive-insurance/)

In May 2024, the PSI Working Group for Nature was launched to develop guidance, methods and recommendations to support insurers address nature-related risks, opportunities, dependencies and impacts, in line with the goals and targets of the Global Biodiversity Framework. The working group comprises over 40 insurers, reinsurers and brokers from Africa, Asia, Europe, Latin America and the Caribbean, North America, and Oceania. Technical partners include the Taskforce on Nature-related Financial Disclosures (TNFD), Finance for Biodiversity, Partnership for Biodiversity Accounting Financials (PBAF), WWF, IUCN, and Cambridge Institute for Sustainability Leadership (CISL). The working group also has a consultative group comprising key stakeholders such as insurance regulators and supervisors, insurance associations, and sustainability initiatives. Initial outputs will be produced via two workstreams: 1) “Mainstreaming nature-related risk assessments and disclosures for insurance”, and 2) “Priority actions on nature for the insurance industry” to support the 2024 UN Biodiversity Conference (COP16) in Colombia and the 2024 UN Climate Change Conference (COP29) in Azerbaijan.

The insurance industry can accelerate and scale up the transition to net zero by supporting the transition to a nature-positive economy. In line with the sphere-of-influence structure of the UN Principles for Sustainable Insurance (PSI), the following range of possible actions<sup>148</sup> outline how insurance practices that value, conserve, restore and wisely use biodiversity and ecosystem services can contribute to the net-zero transition, as well as in tackling interconnected sustainability risks, opportunities and challenges such as supporting adaptation and building resilience, supporting a just transition, and preventing pollution via a circular economy.<sup>149</sup>

- a. **Embedding nature in risk management frameworks** (e.g., sustainability risk management frameworks<sup>150</sup>) applicable to underwriting portfolios to systematically assess the impact of economic activities across industry sectors and lines of insurance business on biodiversity and ecosystems in order to better identify, quantify and assess nature-related dependencies, impacts, risks and opportunities; and to respect and promote human rights, including the right to Free, Prior and Informed Consent (FPIC),<sup>151</sup> particularly for indigenous peoples and local communities. Insurers can also account for the risk reduction benefit of nature-based mitigation in their underwriting and pricing models for lines of insurance and insurance products where investments in nature empirically reduce the risk of loss (e.g.,

148 UNEP (2023): Nature-positive insurance: Evolving thinking and practices [unepfi.org/industries/insurance/nature-positive-insurance-evolving-thinking-and-practices/](https://www.unepfi.org/industries/insurance/nature-positive-insurance-evolving-thinking-and-practices/)

149 Many of these possible actions are also recognised in relevant work of key stakeholders, including civil society organisations. For example, see WWF (2023): Underwriting our planet: How insurers can help address the crises in climate and biodiversity [wwf.ch/sites/default/files/doc-2023-09/WWF\\_Deloitte\\_Insurance\\_Biodiversity\\_Climate\\_2023.pdf](https://www.wwf.ch/sites/default/files/doc-2023-09/WWF_Deloitte_Insurance_Biodiversity_Climate_2023.pdf)

150 For example, see: UNEP (2020) Managing environmental, social and governance risks in non-life insurance business [unepfi.org/industries/insurance/managing-environmental-social-and-governance-risks-in-non-life-insurance-business/](https://www.unepfi.org/industries/insurance/managing-environmental-social-and-governance-risks-in-non-life-insurance-business/) and UNEP (2022): Managing environmental, social and governance risks in life & health insurance business [unepfi.org/industries/insurance/managing-environmental-social-and-governance-risks-in-life-health-insurance-business/](https://www.unepfi.org/industries/insurance/managing-environmental-social-and-governance-risks-in-life-health-insurance-business/)

151 As articulated in the UN Declaration on the Rights of Indigenous Peoples

nature-based management of forests through prescribed fire and ecological thinning reduces average annual losses for property insurance and can be accounted for in underwriting and price modelling)

- b. Setting underwriting policies, criteria and guidelines** for the most nature-negative activities that result in biodiversity loss and ecosystem and habitat destruction (e.g., deforestation, IUU fishing, pollution, invasive species, most GHG-emitting and intensive activities) within underwriting portfolios in order to incentivise clients and potential clients to adopt sustainable practices that value, conserve, restore and wisely use biodiversity and ecosystem services (e.g., sustainable agriculture, aquaculture, forestry and fishing; green/natural infrastructure development; zero and low-emission technologies, infrastructure, transportation and buildings)
- c. Engaging with clients, potential clients and suppliers**, particularly those with the most adverse impacts on nature-negative activities that result in biodiversity loss and ecosystem and habitat destruction (e.g., deforestation, IUU fishing, pollution, invasive species, most GHG-emitting and intensive activities) on their nature-positive strategies and transition plans. Insurers can ask their clients and potential clients to develop and use transition plans that go beyond the one-year insurance renewal timeframe and convey what they would expect them to do to be more nature-positive and what insurance products and services can support their transition. They can also offer incentives to clients, potential clients and suppliers to adopt sustainable practices that value, conserve, restore and wisely use biodiversity and ecosystem services (e.g., sustainable agriculture, aquaculture, forestry and fishing; green/natural infrastructure development; zero and low-emission technologies, infrastructure, transportation and buildings)
- d. Developing insurance products and solutions** that cover natural ecosystems (e.g., forests, coral reefs, mangroves, wetlands), and economic activities that value, conserve, restore and wisely use biodiversity and ecosystem services (e.g., sustainable agriculture, aquaculture, forestry and fishing; green/natural infrastructure development; zero and low-emission technologies, infrastructure, transportation and buildings), as well as insurance for carbon reversals and shortfalls and unintended emissions
- e. Managing claims sustainably**, such as repairs and replacement options that use sustainable materials, used parts or produce zero or lower GHG emissions; that value, conserve, restore and wisely use biodiversity and ecosystem services; reduce or eliminate pollution and waste; promote a circular economy; and build back better and greener through more resilient and sustainable materials and standards
- f. Advocating for and engaging in governmental policies** for a science-based and socially just transition of economic sectors to nature positive. This would include engaging with national-level governments on their National Biodiversity Strategy and Action Plans (NBSAPs), as part of the translation of the Global Biodiversity Framework from global aspiration to national-level implementation

- g. Collaborating with key stakeholders** (e.g., indigenous peoples, local communities, governments, wider financial and business community, insurance and financial regulators and supervisors, scientific and academic community, environmental, conservation and civil society organisations) on projects, programmes and initiatives that support and promote sustainability literacy and insurance for nature-positive practices, and accelerate and scale up a just transition to a nature-positive economy. This includes landscape approaches (including jurisdictional approaches) that involve the collaboration of stakeholders in a landscape to advance shared sustainability goals and build resilience, and aims to reconcile and optimise multiple economic, social and environmental objectives across multiple economic sectors and land uses. Such approaches are implemented through land-use plans, policies, initiatives, long-term investments, and other interventions<sup>152</sup>
- h. Disclosing the organisation's nature-related dependencies, impacts, risks and opportunities** to internal and external stakeholders using relevant risk management, accounting and disclosure frameworks (e.g., ESRS, GRI, ISSB, PBAF, SBTN, TNFD) in order to promote accountability and transparency of the organisation's nature-related performance and progress, demonstrate corporate responsibility and sustainability, and show alignment with the goals and targets of the Global Biodiversity Framework

## 5.8 Role of insurance in preventing pollution and supporting the transition to a circular economy, and how this supports a just transition to a resilient net-zero economy

According to the Global Resources Outlook 2024 by the International Resource Panel, increasing resource use is the main driver of the triple planetary crisis of climate change, nature loss and pollution. Extraction and processing of material resources (e.g., fossil fuels, minerals, non-metallic minerals and biomass) account for over 55 per cent of GHG emissions, and 40 per cent of particulate matter health-related impacts. Use of biomass (e.g., agricultural crops and forestry) also account for over 90 per cent of the total land use-related biodiversity loss and water stress.<sup>153</sup>

The Ellen MacArthur Foundation defines the circular economy as “a system where materials never become waste and nature is regenerated. In a circular economy, products and materials are kept in circulation through processes like maintenance, reuse, refurbish-

152 CDP (2022): Landscape and jurisdictional approaches: Opportunities to finance a nature-positive net-zero transition [cdn.cdp.net/cdp-production/comfy/cms/files/files/000/007/019/original/CDP\\_CM\\_Factsheet\\_2022.pdf](https://cdn.cdp.net/cdp-production/comfy/cms/files/files/000/007/019/original/CDP_CM_Factsheet_2022.pdf)

153 UNEP (2024): Global Resources Outlook 2024: Bend the trend—Pathways to a liveable planet as resource use spikes. International Resource Panel. Nairobi. [unep.org/resources/Global-Resource-Outlook-2024](https://unep.org/resources/Global-Resource-Outlook-2024)

ment, remanufacture, recycling, and composting. The circular economy tackles climate change and other global challenges, like biodiversity loss, waste, and pollution, by decoupling economic activity from the consumption of finite resources".<sup>154</sup>

The circular economy is based on three principles, driven by design:<sup>155</sup>

- Eliminate waste and pollution
- Circulate products and materials (at their highest value)
- Regenerate nature

The circular economy is also embedded in policy and regulatory frameworks such as the EU's Corporate Sustainability Reporting Directive (CSRD).<sup>156</sup>

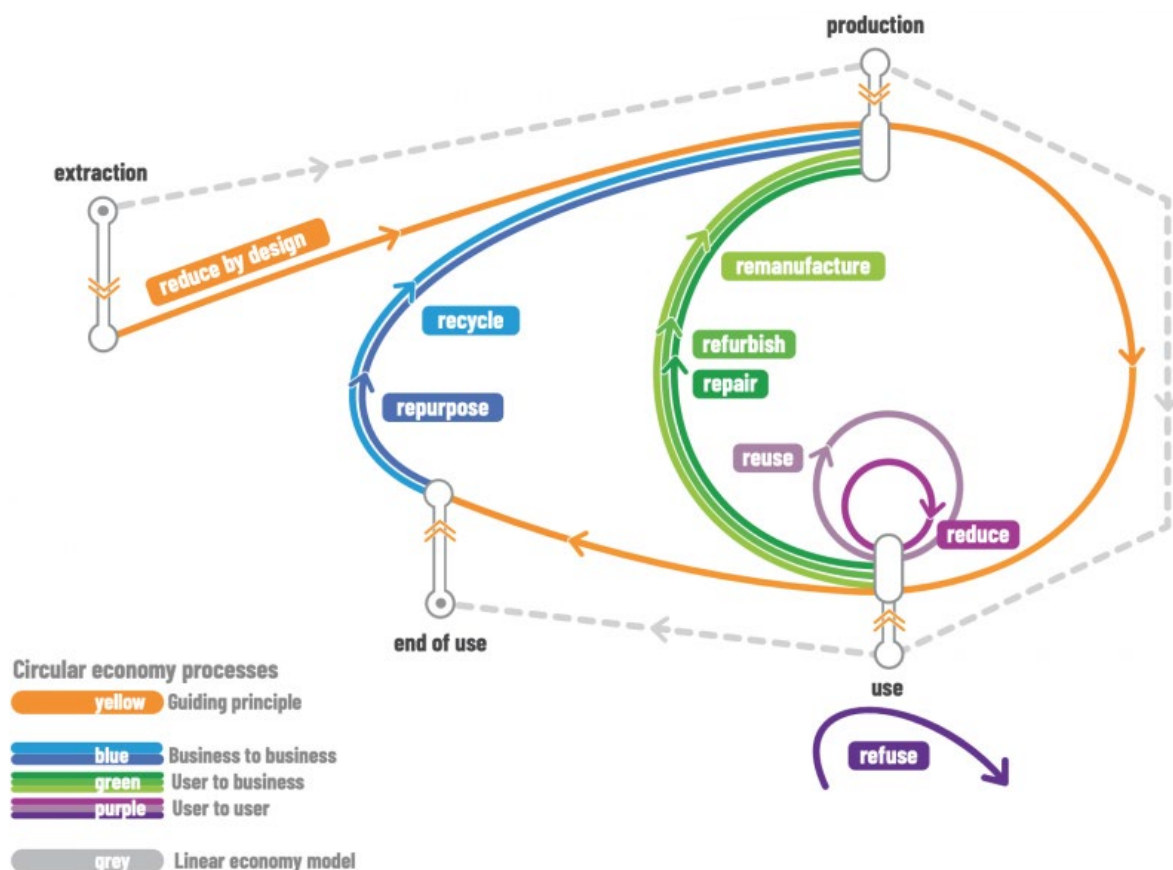


Figure 17: The UNEP circularity approach

154 Ellen MacArthur Foundation website: What is a circular economy? [ellenmacarthurfoundation.org/topics/circular-economy-introduction/overview](https://ellenmacarthurfoundation.org/topics/circular-economy-introduction/overview)

155 Ibid

156 The CSRD defines a circular economy as “an economic system in which the value of products, materials and other resources in the economy is maintained for as long as possible, enhancing their efficient use in production and consumption, thereby reducing the environmental impact of their use, minimising waste and the release of hazardous substances at all stages of their life cycle, including through the application of the waste hierarchy. The goal is to maximise and maintain the value of the technical and biological resources, products and materials by creating a system that allows for durability, optimal use or re-use, refurbishment, remanufacturing, recycling and nutrient cycling.”

In this context, sustainable and responsible resource use and consumption is a key enabling factor for the success of virtually every international agreement and initiative aimed at advancing sustainable development, from the Global Framework on Chemicals and the upcoming global treaty on plastic pollution, to the Paris Agreement on Climate Change, the Global Biodiversity Framework, and the SDGs.

Given that the transition to a circular economy is interconnected with a just transition to a resilient net-zero and nature-positive economy, understanding how insurance companies will integrate circularity, sustainable consumption and production, and pollution prevention into their business models, strategies, operations, and products and services is an important element of an insurance company's transition plan.

As mentioned in earlier sections, insurers are increasingly addressing emissions, pollution and circularity in certain lines of business, such as motor insurance, through pay-as-you-drive insurance schemes, and by managing claims sustainably (e.g., repairing instead of replacing damaged vehicle parts, using sustainable materials).<sup>157</sup> This practice of building back better and greener can also be applied to other lines of business such as property insurance for homes and buildings; and extended to hull insurance for aircraft and vessels.

Another major issue is plastic pollution. Plastic is an increasingly high-profile threat to our climate, ocean, wildlife and human health as it becomes widespread both in the ocean and on land, where it is impacting our ecosystems and threatening lives and human health. Plastics also make a direct contribution to climate change—their energy-intensive manufacture from fossil fuels, recycling and incineration result in high GHG emissions.<sup>158</sup>

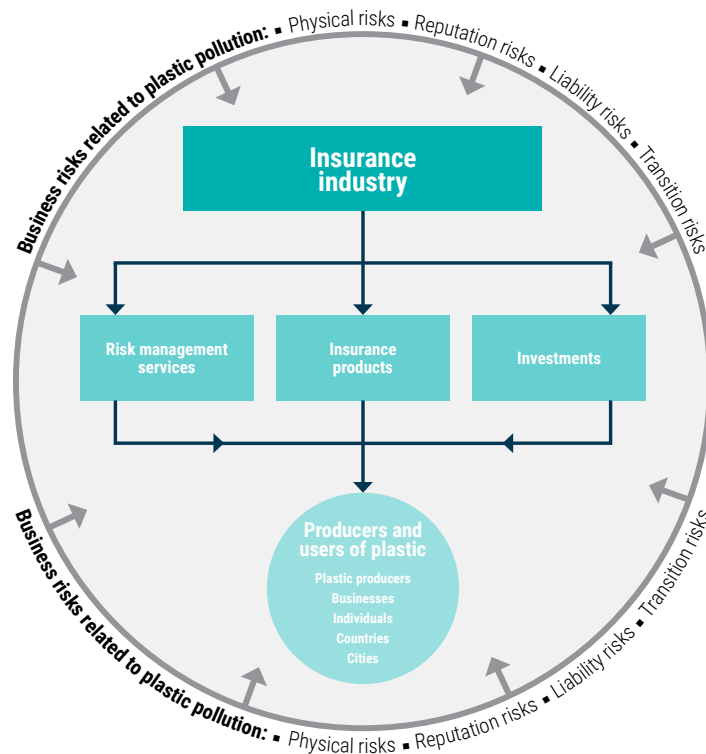
In 2019, UNEP's Principles for Sustainable Insurance Initiative (PSI) produced the first-ever study on the risks of plastic pollution to the insurance industry—from marine plastic litter to microplastics. The report shows that plastic pollution risks can affect insurance and investment portfolios in the form of physical, transition, liability, and reputational risks. These range from threats to human health to evolving liability claims connected to marine litter and plastic pollution should be closely monitored by insurers in coming years. The study identifies how risks related to plastic pollution play out across insurance lines and asset classes in which insurers invest. It argues that insurers should take an active role in addressing the risks related to plastic pollution and in contributing to global efforts to reduce it. In particular, insurers can consider introducing policies to reduce plastic; understand, prevent and reduce plastic pollution; insure risks associated with plastic pollution; support alternatives to plastic; and support wider efforts to reduce plastic pollution.<sup>159</sup>

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157 For example, see the report of Institut Louis Bachelier (2024): CO2e emissions of auto claims management in France [online.flippingbook.com/view/792489148/](https://online.flippingbook.com/view/792489148/)

158 UNEP (2019): Unwrapping the risks of plastic pollution to the insurance industry [unepfi.org/wordpress/wp-content/uploads/2019/11/PSI-unwrapping-the-risks-of-plastic-pollution-to-the-insurance-industry.pdf](https://unepfi.org/wordpress/wp-content/uploads/2019/11/PSI-unwrapping-the-risks-of-plastic-pollution-to-the-insurance-industry.pdf)

159 Ibid



Lead by example	Understand, prevent and reduce plastic pollution risks	Insure risks associated with plastic pollution	Support wider efforts to reduce plastic pollution
<ol style="list-style-type: none"> <li>1 Introduce policies to reduce plastic use and waste internally</li> <li>2 Include plastic pollution in ESG or sustainability approaches</li> </ol>	<ol style="list-style-type: none"> <li>3 Support knowledge and build awareness among the public, government and industry</li> <li>4 Include plastic pollution risks in risk assessment models for insurance and investment activities</li> <li>5 Develop relevant risk reduction measures</li> <li>6 Reduce the plastic footprint of reinstating damaged property investment activities</li> </ol>	<ol style="list-style-type: none"> <li>7 Design innovative insurance products to cover the risks associated with plastic pollution</li> </ol> <p><b>Support alternatives to plastic</b></p> <ol style="list-style-type: none"> <li>8 Support innovations for plastic alternatives through insurance products and investments</li> </ol>	<ol style="list-style-type: none"> <li>9 Actively engage with key stakeholders as risk managers, insurers and investors</li> <li>10 Disclose plastic pollution risks and opportunities in relevant disclosure and reporting frameworks</li> </ol>

**Figure 18:** How the risks associated with plastic pollution affect the insurance industry and ten recommendations to manage those risks | Source: UNEP

One of the key findings of the global survey that informed the 2019 PSI report is that in the context of plastic pollution risks, liability insurance is the most relevant line of insurance business, followed by marine insurance and health insurance. Building on the findings of the pioneering PSI report, in 2022, the Minderoo Foundation published a report on plastic pollution-related social costs and corporate liabilities, serving as an analytical foundation and common reference point to engage the insurance industry on plastic pollution and harness its unique ability to have positive influence on industry and policymakers.<sup>160</sup>

160 Minderoo Foundation (2022): The prince of plastic pollution: Social costs and corporate liabilities [unepfi.org/wordpress/wp-content/uploads/2022/10/The-Price-of-Plastic-Pollution.pdf](https://unepfi.org/wordpress/wp-content/uploads/2022/10/The-Price-of-Plastic-Pollution.pdf)

Another example is chemical and industrial pollution, a long-standing issue for the global insurance industry, which has had to deal with, for example, long-tail asbestos-related claims that have cumulatively reached an estimated USD 100 billion over several decades.<sup>161</sup> Emerging chemical-related issues include PFAS (Per- and Polyfluoroalkyl Substances)—also known as “forever chemicals”—which are toxic, synthetic, hazardous chemicals that have dangerous effects on the environment and human health. PFAS is ubiquitous. People can be exposed to PFAS by working in firefighting or in chemicals manufacturing and processing, drinking or eating liquids or food contaminated with PFAS, swallowing dust contaminated with PFAS, breathing air containing PFAS, or using products made with or packaged in materials containing PFAS.<sup>162,163</sup>

The insurance industry provides a wide range of products relevant to the chemical industry. These include property damage, business interruption, marine cargo, motor, employers’ liability, public liability; products liability; environmental pollution liability, clinical trials, directors’ and officers’ liability, and health. A key factor is how insurers take into account good chemical risk management in their underwriting process, for example, when underwriting corporate clients across industry sectors. Among others, such risk management entails understanding national statutory standards and the quality of their enforcement, corporate clients’ risk management standards and practices (e.g., workplace, product safety).

## 5.9 Total balance sheet approach linking underwriting and investment activities

An insurance company’s transition plan should cover GHG emissions associated with both its underwriting and investment activities. This “total balance sheet” approach is crucial to recognise the links between both core business activities and ensure alignment of strategic climate and broader sustainability goals and actions across the entire organisation.

As explained in Section 2, the insurance industry has a key role to play in supporting a just transition to a resilient net-zero economy, through its roles as risk managers, risk carriers and institutional investors. The key process of asset-liability management (ALM), matching cash flows received through premiums and investment returns with potential payments to policyholders, is also fundamental.

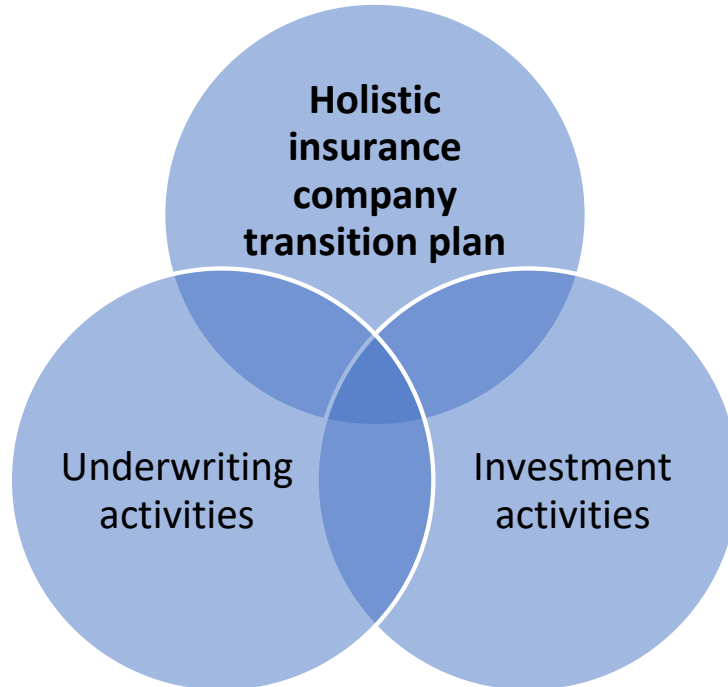
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161 AM Best (2023): Best’s Market Segment Report: Asbestos and environmental reserves decline along with incurred losses [news.ambest.com/pr/PressContent.aspx?refnum=34239&altsrc=2](https://news.ambest.com/pr/PressContent.aspx?refnum=34239&altsrc=2)

162 UNEP website: PFAS [unep.org/topics/chemicals-and-pollution-action/pollution-and-health/persistent-organic-pollutants-pops/and](https://www.unep.org/topics/chemicals-and-pollution-action/pollution-and-health/persistent-organic-pollutants-pops/and)

163 See also TIME (2023): “Forever chemical” lawsuits could ultimately eclipse the big tobacco settlement [time.com/6292482/legal-liability-pfas-chemicals-lawsuit/](https://time.com/6292482/legal-liability-pfas-chemicals-lawsuit/)

This paper primarily focuses on underwriting activities, an area not yet specifically and sufficiently covered by existing transition plan guidance. However, the third deliverable of the FIT Transition Plan Project, as outlined in Section 1, will produce transition plan guidance based on a holistic, total balance sheet and organisation-wide view of insurance company transition plans that covers and links underwriting and investment activities.



**Figure 19:** Total balance sheet transition plan linking underwriting and investment activities

## 6. The Transition Plan Taskforce Disclosure Framework in relation to the insurance business and relevant sustainability issues

Section 4 provided an overview of the Transition Plan Taskforce (TPT) Disclosure Framework and its links to relevant standards and frameworks, including the TCFD recommendations, the ISSB's IFRS S1 and S2 standards, and GFANZ's transition plan frameworks and guidance.

Section 5 discussed the key features of the insurance business and relevant sustainability issues that should be considered when designing insurance-specific transition plan guidance.

In line with the TPT sector-specific guidance that has been developed for other financial industries, such as the guidance for banks, asset owners (applicable to insurance companies as institutional investors) and asset managers (applicable to insurance companies with asset management firms), this section outlines the elements of the sector-neutral TPT Disclosure Framework that require insurance-specific guidance.

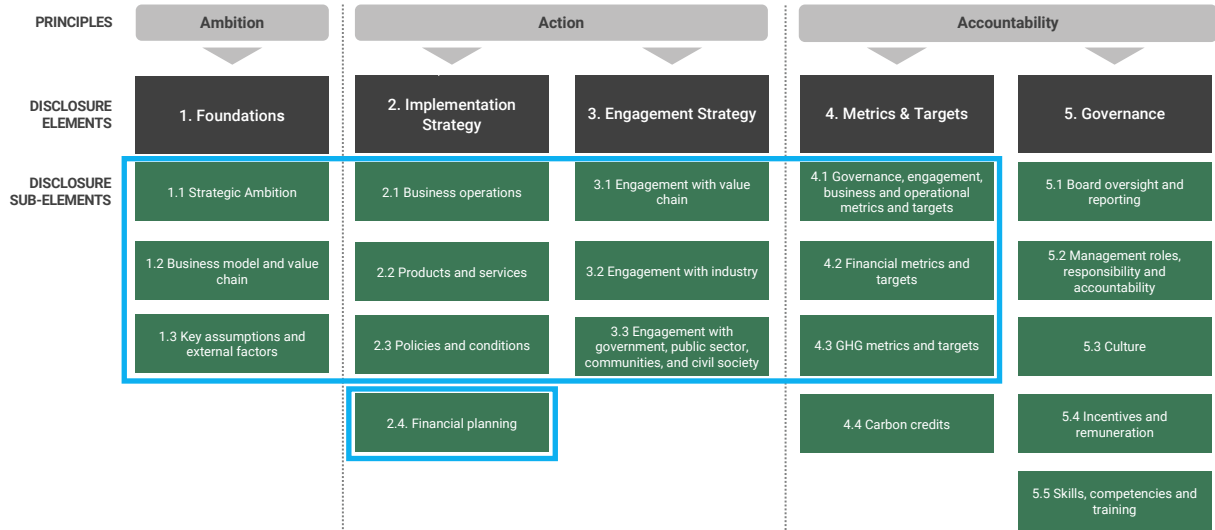
Figure 20 below offers a high-level overview of the elements of the TPT Disclosure Framework,<sup>164</sup> specifying 13 sub-elements (boxed in blue) where insurance-specific guidance is deemed necessary by the FIT, in addition to generic guidance provided by the TPT Disclosure Framework.

In disclosing their transition plans, the FIT recommends that insurers embrace the principle of double materiality, addressing both the financial impacts of climate change and other sustainability risks and opportunities on their insurance business, and the impacts of their insurance business on society and the environment.

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164 TPT (2023): TPT Disclosure Framework [transitiontaskforce.net/wp-content/uploads/2023/10/TPT\\_Disclosure-framework-2023.pdf](https://transitiontaskforce.net/wp-content/uploads/2023/10/TPT_Disclosure-framework-2023.pdf)

Table 1 then outlines initial narratives for each disclosure sub-element requiring insurance-specific guidance, shows sub-elements where generic TPT guidance is deemed sufficient, and indicates where sector-specific guidance is available for asset owners and banks. Implementation is subject to Section 7 below (“Legal compliance requirements when developing and disclosing transition plans”).



**Figure 20:** TPT Disclosure Framework and sub-elements requiring insurance-specific guidance

**Table 1:** TPT Disclosure Framework sub-elements that require insurance-specific guidance beyond generic TPT guidance

Disclosure sub-element	Description of sub-elements in the TPT Disclosure Framework	Asset owner-specific guidance produced?	Banking-specific guidance produced?
<b>Under the “Ambition” principle and disclosure element 1: “Foundations”</b>			
<b>1.1 Strategic ambition</b>	<p>TPT description: An entity shall disclose the strategic ambition of its transition plan. This shall comprise the entity’s objectives and priorities for responding and contributing to the transition towards a low-GHG emissions, climate-resilient economy, and set out whether and how the entity is pursuing these objectives and priorities in a manner that captures opportunities, avoids adverse impacts for stakeholders and society, and safeguards the natural environment.</p> <p><b>Insurance-specific guidance needed (beyond generic TPT guidance)? Yes</b>                      When disclosing their strategic ambition, insurers should:</p> <ol style="list-style-type: none"> <li>1. Articulate in their strategic ambition the role of insurance in reducing GHG emissions in the real economy to net zero, de-risking the transition to a net-zero economy, supporting adaptation and building resilience, supporting a just transition, and addressing relevant sustainability risks and opportunities including protecting nature and biodiversity, and preventing pollution via a circular economy</li> <li>2. Describe how a strategic and rounded approach to transition plans applies to insurance, outlining its ambitions and actions to decarbonise its operations and value chain; to enhance its resilience to climate-related risks and respond to the risks and opportunities of the transition; and to use its levers and capabilities to contribute to an economy-wide just transition to a resilient net-zero economy</li> <li>3. Embrace the principle of double materiality, addressing both the financial impacts of climate change and other sustainability risks and opportunities on their insurance business, and the impacts of their insurance business on society and the environment</li> </ol>	Yes	Yes

Disclosure sub-element	Description of sub-elements in the TPT Disclosure Framework	Asset owner-specific guidance produced?	Banking-specific guidance produced?
<b>1.2 Business model and value chain</b>	<p>TPT description: An entity shall disclose a description of the current and anticipated implications of the entity's strategic ambition on its business model and value chain.</p> <p><b>Insurance-specific guidance needed (beyond generic TPT guidance)? Yes</b>  When disclosing the current and anticipated implications of their strategic ambition on their business model and value chain, insurers should:</p> <ol style="list-style-type: none"> <li>1. Evaluate the current and potential implications of climate-related risks and opportunities on their underwriting practices, product and service offerings, and operations. This may involve changes in risk assessment, underwriting criteria, client engagement strategies, insurance product lifecycles for longer-term client engagement, reinsurance arrangements, and claims management, as well as developing new insurance solutions</li> <li>2. Ensure that these changes are in line with a just transition and do not negatively impact vulnerable communities and the natural environment</li> </ol>	No	No
<b>1.3 Key assumptions and external factors</b>	<p>TPT description: An entity shall disclose key assumptions that it has made and external factors on which it depends in order to achieve the strategic ambition of its transition plan.</p> <p><b>Insurance-specific guidance needed (beyond generic TPT guidance)? Yes</b>  When disclosing the key assumptions made and external factors considered in order to achieve their strategic ambition, insurers should:</p> <ol style="list-style-type: none"> <li>1. Disclose their assumptions on the evolving societal role and fiduciary duties of insurers and their impact on insurance products and services, including compulsory insurance lines</li> <li>2. Consider how changes in laws, rules and regulations (e.g., competition/antitrust and consumer protection laws, solvency requirements) might affect insurance practices and a just transition to a resilient net-zero economy</li> <li>3. Ensure that their assumptions address anticipated shifts in market demand, changes in underwriting practices and policyholder obligations due to climate and relevant sustainability risks, and the effects of technological innovation on insurance product and service development and value chain processes</li> <li>4. Disclose assumptions about the transition pathways in the real economy, including the managed phaseout of high-emitting and emissions-intensive assets and activities (e.g., including but not limited to activities involving fossil fuels and deforestation), and their impact on their portfolios over time</li> </ol>	Yes	No

Disclosure sub-element	Description of sub-elements in the TPT Disclosure Framework	Asset owner-specific guidance produced?	Banking-specific guidance produced?
Under the "Action" principle and disclosure element 2: "Implementation strategy"			
<b>2.1 Business operations</b>	<p>TPT description: An entity shall disclose information about the short, medium, and long-term actions it is taking or plans to take in its business operations in order to achieve the strategic ambition of its transition plan.</p>	Yes	Yes
<p><b>Insurance-specific guidance needed (beyond generic TPT guidance)? Yes</b>  When disclosing the short, medium and long-term actions they are taking, or plan to take, in their business operations in order to achieve their strategic ambition, insurers should:</p> <ol style="list-style-type: none"> <li>1. Disclose their (planned) actions to develop and offer insurance products and services, including relevant reinsurance arrangements, that support climate solutions (including nature-based solutions) and a just transition to a resilient net-zero economy</li> <li>2. Disclose their (planned) actions to engage with relevant stakeholders who can contribute to insurance strategies that support a just transition to a resilient net-zero economy</li> <li>3. Disclose their (planned) actions to improve access to more comprehensive and high-quality climate data from clients and potential clients to enhance risk assessment and underwriting practices, and to inform the development of new insurance products and services</li> <li>4. Disclose their (planned) actions to integrate climate and relevant sustainability goals and policies into their operations, including those related to decarbonisation, adaptation and resilience, just transition, nature and biodiversity, and pollution prevention via a circular economy.</li> </ol>			

Disclosure sub-element	Description of sub-elements in the TPT Disclosure Framework	Asset owner-specific guidance produced?	Banking-specific guidance produced?
2.2 Products and services	<p>TPT description: An entity shall disclose information about short, medium, and long-term actions it is taking or plans to take to change its portfolio of products and services in order to achieve the strategic ambition of its transition plan.</p> <p><b>Insurance-specific guidance needed (beyond generic TPT guidance)? Yes</b>            When disclosing short, medium and long-term actions they are taking, or plan to take, to change their portfolios of products and services in order to achieve their strategic ambition, insurers should:</p> <ol style="list-style-type: none"> <li>1. Disclose (planned) actions to ensure that their insurance products and services support the transition through underwriting policies, conditions and criteria (including incentives) that promote climate solutions and facilitate the managed phaseout of high-emitting and emissions-intensive assets and activities in the real economy; and by developing products and services that de-risk climate solutions, advance adaptation and resilience, support a just transition, protect nature and biodiversity, and prevent pollution via a circular economy</li> <li>2. Disclose (planned) actions to transform claims management practices to reduce emissions, pollution and waste; avoid damage to nature; advance adaptation and build resilience</li> <li>3. Disclose (planned) actions to work with intermediaries (e.g., brokers, agents) to develop and distribute environment-friendly products and services, and with suppliers to support the transition plan, leveraging technological innovations (e.g., insurtech)</li> <li>4. Disclose (planned) actions to raise awareness of products and services aligned with its climate and sustainability goals</li> <li>5. Ensure that their products and services comply with applicable laws, rules and regulations, including those related to compulsory insurance and fiduciary responsibilities</li> </ol>	Yes	Yes

Disclosure sub-element	Description of sub-elements in the TPT Disclosure Framework	Asset owner-specific guidance produced?	Banking-specific guidance produced?
<b>2.3 Policies and conditions</b>	<p>TPT description: An entity shall disclose information about any policies and conditions that it uses or plans to use in order to achieve the strategic ambition of its transition plan.</p> <p><b>Insurance-specific guidance needed (beyond generic TPT guidance)? Yes</b>  When disclosing the policies and conditions that they use, or plan to use, in order to achieve their strategic ambition, insurers should:</p> <ol style="list-style-type: none"> <li>1. Disclose their underwriting policies, conditions and criteria that facilitate the managed phaseout of high-emitting and emissions-intensive assets and activities (e.g., including but not limited to activities involving fossil fuels and deforestation) in the real economy, de-risk climate solutions (including nature-based solutions) and reduce emissions, support adaptation and build resilience, support a just transition, protect nature and biodiversity, and prevent pollution via a circular economy</li> <li>2. Disclose which lines of business, activities and premiums are affected by these policies and conditions and explain any exclusions</li> </ol>	Yes	Yes
<b>2.4 Financial planning</b>	<p>TPT description: An entity shall, to the extent the financial effects of its transition plan are separately identifiable, disclose information about the effects of its transition plan on its financial position, financial performance and cash flows over the short-, medium-, and long-term, including information about how it is resourcing or plans to resource its activities in order to achieve the strategic ambition of its transition plan.</p> <p><b>Insurance-specific guidance needed (beyond generic TPT guidance)? Yes</b>  When disclosing the effects of their transition plans on their financial position, financial performance, and cash flows over the short, medium and long term, insurers should:</p> <ol style="list-style-type: none"> <li>1. Disclose the estimated financial effects of changes in underwriting practices, claims management, and portfolio mix as a result of their transition plans; and key metrics such as premiums, loss ratios, and reserves, and how these affect their overall risk exposure</li> </ol>	No	Yes

Disclosure sub-element	Description of sub-elements in the TPT Disclosure Framework	Asset owner-specific guidance produced?	Banking-specific guidance produced?
Under the “Action” principle and disclosure element 3: “Engagement strategy”			
<b>3.1 Engagement with value chain</b>	<p>TPT description: An entity shall disclose information about any engagement activities with other entities in its value chain that it is undertaking or plans to undertake in order to achieve the strategic ambition of its transition plan.</p> <p><b>Insurance-specific guidance needed (beyond generic TPT guidance)? Yes</b>  When disclosing the engagement activities they are undertaking, or plan to undertake, with the following actors in the insurance value chain to achieve their strategic ambition, insurers should:</p> <ol style="list-style-type: none"> <li>1. Disclose their (planned) engagement activities with clients, potential clients and suppliers, taking into account the transition plans of corporate clients and suppliers</li> <li>2. Disclose their (planned) engagement activities with Intermediaries (e.g., brokers) and reinsurers on their transition plans and in managing climate and relevant sustainability risks and opportunities</li> <li>3. Disclose their (planned) engagement activities with third-party claims management service providers (e.g., health facilities, repair shops) to align such services with their strategic ambition</li> <li>4. Take into account influence levels and levers across lines of business in the engagement activities mentioned above</li> </ol>	Yes	Yes
<b>3.2 Engagement with industry</b>	<p>TPT description: An entity shall disclose information about any engagement and collaborative activities with industry counterparts (and other relevant initiatives or entities) that it is undertaking or plans to undertake in order to achieve the strategic ambition of its transition plan.</p> <p><b>Insurance-specific guidance needed (beyond generic TPT guidance)? Yes</b>  When disclosing their engagement and collaborative activities with industry counterparts that they are undertaking, or plan to undertake, in order to achieve their strategic ambition, insurers should:</p> <ol style="list-style-type: none"> <li>1. Disclose information on their engagement and collaborative activities with initiatives in the insurance industry, financial sector, and real economy on climate and relevant sustainability issues (e.g., PSI, FIT, ISSB, GFANZ, TPT, TNFD, Net-Zero Asset Owner Alliance, real economy/industry sector associations and initiatives)</li> </ol>	Yes	No

Disclosure sub-element	Description of sub-elements in the TPT Disclosure Framework	Asset owner-specific guidance produced?	Banking-specific guidance produced?
<b>3.3 Engagement with government, public sector and civil society</b>	TPT description: An entity shall disclose information about any direct and indirect engagement activities with the government, regulators, public sector organisations, communities, and civil society that it is undertaking or plans to undertake in order to achieve the strategic ambition of its transition plan.	Yes	Yes
	<p><b>Insurance-specific guidance needed (beyond generic TPT guidance)? Yes</b></p> <p>When disclosing their direct and indirect engagement activities with governments, regulators, public sector organisations, communities and civil society that they are undertaking, or plan to undertake, in order to achieve their strategic ambition, insurers should:</p> <ol style="list-style-type: none"> <li>1. Disclose their (planned) engagement activities with key stakeholders, including governments, regulators and civil society, on policy and regulatory frameworks relevant to insurance and sustainability. This can include engagement on national sustainability goals (e.g., Nationally Determined Contributions (NDCs) on climate, and National Biodiversity Strategies and Action Plans (NBSAPs) on nature) in line with global agreements (e.g., Paris Agreement, Global Biodiversity Framework), and engagement on sustainability reporting standards, outlining how they leverage these engagements to support a just transition to a resilient net-zero economy</li> <li>2. Disclose their (planned) participation in national climate strategies, such as discussions on net zero, adaptation and just transition targets and pathways relevant to the insurance industry</li> <li>3. Disclose their (planned) engagement activities on policies and regulations that facilitate the managed phaseout of high-emitting and emissions-intensive assets and activities, promote climate solutions (including nature-based solutions) and reduce emissions, support adaptation and build resilience, support a just transition, protect nature and biodiversity, and prevent pollution via a circular economy</li> </ol>		

Disclosure sub-element	Description of sub-elements in the TPT Disclosure Framework	Asset owner-specific guidance produced?	Banking-specific guidance produced?
Under the “Accountability” principle and disclosure element 4: “Metrics and targets”			
<p>For all sections of the “metrics and targets” disclosure element, insurers should:</p> <ol style="list-style-type: none"> <li>1. Include metrics and targets required by applicable laws, rules and regulations, including those related to solvency and capital requirements and policyholder protection. This includes capital and risk management standards, claims handling requirements such as timelines and dispute resolution processes, and rules governing reinsurance activities such as financial stability and licensing</li> <li>2. Provide relevant metrics across insurance and reinsurance lines and types and portfolio counterparties (e.g., large corporations, MSMEs, individuals)</li> <li>3. Include information on the calculation of insurance-specific metrics and targets, including any limitations in methodologies, proxies, tools, definitions and taxonomies</li> </ol>			
<p><b>4.1 Governance, business and operational metrics and targets</b></p>	<p>TPT description: An entity shall disclose information about the governance, engagement, business and operational metrics and targets that it uses in order to drive and monitor progress towards the strategic ambition of its transition plan, and report against these metrics and targets on at least an annual basis.</p>	<p>Yes</p>	<p>Yes</p>
<p><b>Insurance-specific guidance needed (beyond generic TPT guidance)? Yes</b>  <b>Governance metrics and targets:</b> (Note: No insurance-specific guidance deemed necessary for this item).</p> <p>When disclosing and reporting governance, engagement, business and operational metrics and targets that they use in order to drive and monitor progress towards their strategic ambition, insurers should:</p> <ol style="list-style-type: none"> <li>1. Disclose and report on metrics and targets on the scale of engagements across the value chain, including clients, intermediaries, reinsurers and suppliers</li> <li>2. Disclose and report on efforts that phaseout underwriting support for high-emitting and emissions-intensive assets and activities</li> <li>3. Disclose and report on metrics and targets on public policy engagements, and the role of trade associations in lobbying for related goals</li> <li>4. Disclose and report on metrics and targets on the proportion of corporate clients setting credible GHG emissions reduction targets and developing transition plans aligned with their strategic ambition, and how these transition plans affect vulnerable communities, the environment, and the economy</li> <li>5. Disclose and report on metrics and targets to improve access to reliable climate data for better risk assessment and underwriting, to integrate climate-related considerations into the underwriting process, and to track progress in the underwriting process on relevant sustainability goals including adaptation and resilience, just transition, nature and biodiversity, and pollution prevention via a circular economy</li> </ol>			

Disclosure sub-element	Description of sub-elements in the TPT Disclosure Framework	Asset owner-specific guidance produced?	Banking-specific guidance produced?
<b>4.2 Financial metrics and targets</b>	<p>TPT description: An entity shall disclose information about any financial metrics and targets, relevant to its business, sector, and strategy, that it uses in order to drive and monitor progress towards the strategic ambition of its transition plan, and report against these metrics and targets on at least an annual basis.</p> <p><b>Insurance-specific guidance needed (beyond generic TPT guidance)? Yes</b>            When disclosing and reporting on financial metrics and targets relevant to their business, sector and strategy that they use in order to drive and monitor progress towards their strategic ambition, insurers should:</p> <ol style="list-style-type: none"> <li>1. Disclose metrics and targets that monitor their portfolio exposure to high-emitting and emissions-intensive assets and activities (e.g., including but not limited to activities involving fossil fuels and deforestation)</li> <li>2. Disclose metrics and targets that monitor the amount and share of underwriting capacity directed towards climate solutions (including nature-based solutions) and insurance products and services supporting a just transition to a resilient net-zero economy</li> <li>3. Ensure that metrics and targets are differentiated between those working towards the goal of net zero, and those already achieving emissions progress compatible with the goal of net zero,<sup>165</sup> providing insights across lines of business, industry sectors, and geographies</li> <li>4. Focus on lines of business, sectors and regions requiring accelerated decarbonisation, outlining how they identify and prioritise them</li> </ol>	Yes	Yes

165 For example, SBTi’s Financial Institutions Net-Zero (FINZ) Standard Consultation Draft V0.1 July 2024 states the outcome of “FIs [financial institutions] eventually direct all financial activities to climate-aligned entities and activities. This includes those already achieving emissions progress compatible with limiting warming to 1.5°C (net-zero achieved activities) and those actively working towards this goal (transitioning activities). Net-zero achieved and transitioning financial activities, as defined in this document, constitute climate-aligned financing [which also refers to insurance underwriting activities]. FIs establish portfolio climate-alignment targets in a manner that reflects the climate impact of counterparties and the ability of FIs to influence the source of emissions. Targets are designed to increase the share of financial activities in line with benchmarks consistent with global climate goals.”

Disclosure sub-element	Description of sub-elements in the TPT Disclosure Framework	Asset owner-specific guidance produced?	Banking-specific guidance produced?
<b>4.3 GHG metrics and targets</b>	<p>TPT description: An entity shall disclose information about the GHG emissions and removals metrics and targets that it uses in order to drive and monitor progress towards the strategic ambition of its transition plan, and report against these metrics and targets on at least an annual basis.</p> <p><b>Insurance-specific guidance needed (beyond generic TPT guidance)? Yes</b>  When disclosing and reporting on the GHG emissions and removals metrics and targets that they use in order to drive and monitor progress towards their strategic ambition, insurers should:</p> <ol style="list-style-type: none"> <li>1. Use absolute and/or intensity metrics to track progress of the reduction of insured emissions in their underwriting portfolios or of counterparties' real economy emissions against set metrics and targets</li> <li>2. Ensure metrics and targets are defined with a granularity adapted to their underwriting portfolios' characteristics and aligned with actionable levers to reduce emissions in the real economy</li> <li>3. Disclose the criteria and assumptions used to calculate GHG metrics, including methodologies and their limitations, and the sources of climate data and pathways. The metrics should consider alignment with international standards and methodologies (e.g., GHG Protocol, PCAF, SBTi) and sector-specific guidelines to ensure credibility and comparability</li> </ol>	Yes	Yes
<b>4.4 Carbon credits</b>	<p>TPT description: An entity shall disclose information about how it uses or plans to use carbon credits to achieve the strategic ambition of its transition plan, and report on the use of carbon credits on at least an annual basis.</p> <p><b>Insurance-specific guidance needed (beyond generic TPT guidance)? No</b>  Note: Insurance solutions for carbon credit shortfalls, reversals and unintended emissions should form part of products and services (item 2.2 above)</p>	No	No

Disclosure sub-element	Description of sub-elements in the TPT Disclosure Framework	Asset owner-specific guidance produced?	Banking-specific guidance produced?
<b>Under the “Accountability” principle and disclosure element 5: “Governance”</b>			
<b>5.1 Board oversight and reporting</b>	TPT description: An entity shall disclose information about the governance body(s) (which can include a board, committee, or equivalent body charged with governance) or individual(s) responsible for oversight of the transition plan.	No	No
<b>Insurance-specific guidance needed (beyond generic TPT guidance)? No</b>			
<b>5.2 Roles, responsibility and accountability</b>	TPT description: An entity shall disclose information about management’s role in the governance processes, controls, and procedures used to monitor, manage, and oversee the transition plan, as well as how it is embedded within the entity’s wider control, review, and accountability mechanisms.	No	No
<b>Insurance-specific guidance needed (beyond generic TPT guidance)? No</b>			
<b>5.3 Culture</b>	TPT description: An entity shall disclose information about how it aligns or plans to align its culture with the strategic ambition of its transition plan.	No	No
<b>Insurance-specific guidance needed (beyond generic TPT guidance)? No</b>			
<b>5.4 Incentives and remuneration</b>	TPT description: An entity shall disclose information about how it aligns or plans to align its incentive and remuneration structures with the strategic ambition of its transition plan.	No	No
<b>Insurance-specific guidance needed (beyond generic TPT guidance)? No</b>			
<b>5.5 Skills, competencies and training</b>	TPT description: An entity shall disclose information about actions it is taking or plans to take to assess, maintain, and build the appropriate skills, competencies, and knowledge across the organisation in order to achieve the strategic ambition of its transition plan.	No	No
<b>Insurance-specific guidance needed (beyond generic TPT guidance)? No</b>			

# 7. Legal compliance requirements when developing and disclosing transition plans

Unless otherwise required by applicable laws, rules and/or regulations, an organisation must comply with the following legal requirements when developing and disclosing transition plans:

- a.** Transition plans should not require disclosure of:
  - i. Plans or strategy for pricing
  - ii. Plans for specific key competitive terms
  - iii. Plans for non-public sensitive business strategies that the company regards as competitively sensitive, and
  - iv. Details not reasonably necessary for the transition
- b.** Any disclosure of a transition plan should be to the public, including stakeholders
- c.** Transition plans should be ambitious, but should explicitly allow individual companies to be more ambitious individually, or to adopt more ambitious plans subsequently
- d.** Transition plans should not be used to reach or monitor agreements on:
  - i. Plans or strategy for pricing
  - ii. Plans to adopt specific key competitive terms
  - iii. Plans for non-public sensitive business strategies that the company regards as competitively sensitive, and
  - iv. Details not reasonably necessary for the transition

## 8. Next steps

This paper has articulated the insurance industry's triple role as risk managers, risk carriers (insurers) and institutional investors in accelerating and scaling up a just transition to a resilient net-zero economy, including addressing the interconnected, climate-related sustainability issues of protecting nature and biodiversity and preventing pollution via a circular economy.

This unprecedented global transition will present both risks and opportunities. This entails companies adapting their business models and strategies to reduce risks, seize opportunities, and protect not only long-term company value but also the long-term value of the societies, economies and the natural environment that businesses depend on.

For insurance companies, their transition plans should reflect the key features of their underwriting activities—across lines of insurance, the insurance value chain and actors involved—along with the key features of their investment activities and their organisation-wide strategic ambition with respect to climate-related sustainability impacts, risks and opportunities.

This paper has highlighted the current major gap in transition plan guidance for underwriting activities of insurance companies and is an initial effort by the FIT to close that gap. It has assessed key features of the insurance business and relevant sustainability issues needed to develop insurance-specific transition plan guidance that delves into greater detail.

With a solid foundation set, the next deliverable of the FIT Transition Plan Project is to develop deep-dive guidance for insurance-specific transition plans to further support insurance companies in developing and disclosing credible transition plans for their underwriting activities.

Thereafter, the FIT will produce the third and final deliverable of the project—transition plan guidance for the insurance industry that provides a holistic, total balance sheet and organisation-wide view that covers and links the underwriting and investment activities of insurance companies.

Furthermore, this paper has outlined the existing typology of transition plans, the landscape of emerging policies and regulations relevant to transition plans, and the evolution of transition plan frameworks and guidance.

Given this evolving landscape, there can be several reasons for an insurance company to produce a transition plan. One reason could be to help establish credibility following a voluntary sustainability commitment it has made. Another reason could be to comply with mandatory government policies and regulations meant to incentivise market discipline by providing investors with adequate information on the sustainability profile of their investments. A third reason could be to comply with mandatory insurance and financial regulatory instruments that seek to address micro and macroprudential

concerns related to transition risks and safeguard the stability of the financial system. Whatever the reason is, a just transition to a resilient net-zero economy will not happen by chance. It requires turning theory into practice so that ambition can turn into action. It requires a transition plan—a credible transition plan.

As this paper has shown, a single transition plan can have many internal and external users. Governments and regulators can also use different regulatory instruments to set expectations about what a transition plan should entail, including expectations on risk management, or what should be made public about a transition plan. But all of these requirements should speak to a single, overarching strategy. At the end of the day, a transition plan is about core company strategy. It articulates where a company wants to be tomorrow, and what actions it is taking today in order to get there.

In this vein, the FIT hopes that this paper has provided illumination on the emerging global agenda of transition plans and the need for insurance-specific guidance. It encourages insurance market participants, insurance regulatory and supervisory authorities, the scientific and research community, civil society organisations; and sustainability and reporting initiatives and standard setters to get going now with the things they need to do to ensure the development and delivery of credible insurance company transition plans that are fit for purpose.

This paper marks an important first step towards that direction and the FIT looks forward to the next steps.



**Forum for Insurance  
Transition to Net Zero**

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