Forum for Insurance Transition

Insuring and Investing in the Transition

How insurers and reinsurers can turn the Total Balance Sheet Transition Plan Principles into practice

The fourth in a series of global guidance by the United Nations Environment Programme's Forum for Insurance Transition

June 2026

Disclaimers

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Acronyms and abbreviations

APRA	Australian Prudential Regulation Authority
CBD	Convention on Biological Diversity
CoR	Combined Operating Ratio
COP	Conference of the Parties (UN Climate Change Conference)
CSRD	Corporate Sustainability Reporting Directive (EU)
CSDDD	Corporate Sustainability Due Diligence Directive (EU)
EIOPA	European Insurance and Occupational Pensions Authority
ESG	Environmental, social and governance
ESRS	European Sustainability Reporting Standards
Exco	Executive Committee
FCA	Financial Conduct Authority (United Kingdom)
FIT	Forum for Insurance Transition
GFANZ	Glasgow Financial Alliance for Net Zero
GHG	Greenhouse gas
GRI	Global Reporting Initiative
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
ILO	International Labour Organization
IPBES	Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services
IPCC	Intergovernmental Panel on Climate Change
IRO	Issue, Risk or Opportunity (CSRD/ESRS double materiality framework)
ISSB	International Sustainability Standards Board
ITPN	International Transition Plan Network
MAS	Monetary Authority of Singapore
NDC	Nationally Determined Contribution
NGFS	Network for Greening the Financial System
ORSA	Own Risk and Solvency Assessment
PCAF	Partnership for Carbon Accounting Financials
PRA	Prudential Regulation Authority (Bank of England)
PSI	Principles for Sustainable Insurance
SAA	Strategic Asset Allocation
SBTi	Science Based Targets initiative
SDG	Sustainable Development Goal
SUSEP	Brazilian Superintendence of Private Insurance

TBS	Total Balance Sheet
TCFD	Task Force on Climate-related Financial Disclosures
TNFD	Taskforce on Nature-related Financial Disclosures
TPT	Transition Plan Taskforce (succeeded by the ITPN)
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change

About the Forum for Insurance Transition

The Forum for Insurance Transition (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) and engages with insurance regulators and supervisors, sustainability standard setters and initiatives, the scientific and academic community, civil society, and other key stakeholders (e.g. sustainability disclosure initiatives, real economy actors).

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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.

Views expressed by the FIT's Consultative Group on Science, Research & Civil Society cannot be construed as official guidance by the scientific, research and civil society communities. As a result, this document does not purport to represent or anticipate guidance and views issued by the scientific, research and civil society communities, which may differ from the contents of this document.

Legal compliance

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

Transition plans should not require disclosure of plans, or:

- Pricing strategies
- Specific key competitive terms
- Non-public sensitive business strategies that the company regards as competitively sensitive, and;
- Details not reasonably necessary for the transition.

Any disclosure of a transition plan should be to the public, including stakeholders. Transition plans should be ambitious, but should explicitly allow individual companies to be more ambitious individually, or to adopt more ambitious plans subsequently.

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Executive summary

Global insured losses from natural catastrophes have exceeded US$ 100 billion for six consecutive years, having risen in real terms at an annual rate of 5–7%[1]. As physical climate risks intensify, transition risks are simultaneously reshaping capital markets and regulatory expectations. The financial stakes are systemic: Research suggests that a temperature risk of 1˚C could depress global GDP by over 20%.[2] The insurance industry has a critical role to play in response: as risk manager, risk carrier, and one of the world's largest pools of long-term institutional capital.

There can be a contradiction at the heart of how many insurers currently operate—one side of the balance sheet can work to deliver climate-positive outcomes; the other, often unknowingly, can undermine them. For example, they may be advancing decarbonization of the real economy through their investment portfolios but may be underwriting economic activities driving the emissions they seek to reduce. They may be providing insurance protection for climate-vulnerable communities while investing in emissions-intensive assets in the same regions. This is not a failure of intent, it is the consequence of treating underwriting and investment as separate disciplines with separate strategies, separate data and separate governance, when they are two sides of the same balance sheet.

The Total Balance Sheet (TBS) Principles address this challenge by aligning underwriting and investment decisions around a unified Strategic Ambition. Its core organizing concept is cognitive consonance: a consistent internal logic through which any differences across the balance sheet are deliberate, evidence-based, time-bound, and governed transparently. The aim is not identical treatment of every exposure, but coherent treatment of trade-offs, divergences and opportunities.

This is the fourth global guide of the FIT Transition Plan Project. Taken together, the four guides provide the most comprehensive global transition plan guidance tailored for insurance and reinsurance companies:

- Closing the Gap (2024) established the strategic case for insurance-specific transition planning
- Underwriting the Transition (2025) provided deep-dive guidance for underwriting portfolios
- A Total Balance Sheet Transition (2025) set out the six TBS Principles
- This fourth report, *Insuring and Investing in the Transition* (2026), is the practical implementation companion for the TBS Principles, moving from the what to the how through process steps, governance expectations, tools and insurer-specific considerations

The objective of this report is to help insurers build transition plans that are credible, internally coherent, decision-useful and capable of supporting real-economy transition and resilience. A well-designed TBS transition plan should improve business decision-making, not sit alongside it. It should help Boards and management identify contradictions before they become credibility, conduct or prudential risks; surface opportunities that siloed approaches miss; support more coherent engagement with clients and investees; and strengthen financial resilience by connecting transition planning to scenario analysis, stress testing, risk appetite, capital planning, and solvency.

1 sri-sigma-natural-catastrophes-1-2025.pdf
2 2030 Climate action plan | Norges Bank Investment Management

The practitioner evidence referenced in this paper suggests that progress is being made, but also that implementation remains uneven across the market. This guidance is therefore aimed squarely at the practical gaps: how to translate ambition into risk appetite, portfolio actions, coordinated engagement, measurement, governance, incentives and financial resilience across the whole balance sheet.

This report is structured around a core climate-related transition planning use case, while recognizing that nature, just transition and broader social considerations are or will become material for many firms and are expected to be integrated over time. The guidance is designed to be proportionate and adaptable. It should be applied first to the issues that are most material to the insurer's business model, portfolios, geographies and regulatory context.

1. Introduction and strategic foundations

Why a Total Balance Sheet (TBS) approach matters

The insurance industry is navigating a period of significant structural change. Physical climate risks are intensifying rapidly, with global insured losses exceeding long-term averages for several consecutive years.[3] At the same time, transition risks are accelerating as governments, regulators, and markets strengthen expectations around decarbonization, adaptation and resilience, nature protection, and a just transition. These factors are further complicated by geopolitical uncertainty. These forces increasingly affect both sides of insurers' balance sheets, exposing the limitations of traditional siloed approaches.

A TBS approach responds to these challenges by supporting insurers in assessing the alignment of underwriting and investment activities and decisions around a unified transition ambition. It can encourage insurers to view climate and broader sustainability-related risks and opportunities through the full balance sheet lens, recognizing that decisions on one side inevitably influence outcomes on the other—as physical risks feed back into underwriting portfolios through rising claims and volatility, investments in assets in sectors with escalating hazards may see significantly increased insurance costs. Equally, a lack of insurance coverage for new and emerging climate technologies may be a barrier to the transition.

Central to the TBS approach is the concept of cognitive consonance, a consistent internal logic that ensures underwriting and investments apply consistent principles and align engagement activities. Cognitive consonance does not require identical treatment of risks and opportunities across portfolios; rather, it ensures that differences are understood, appropriately monitored and governed, and aligned with a coherent transition ambition. It notes that a risk for one side of the business may create an opportunity for the other, and vice versa. This concept supports long-term balance sheet resilience, enabling insurers to play a meaningful role in advancing a just, climate-resilient, and nature-positive global economy. The need for cognitive consonance is reinforced by external trends; insurance availability and affordability challenges are increasing, threatening the economic viability of certain communities.[4]

Regulators across the globe are enhancing expectations around transition planning, emphasizing the requirement to embed transition planning into business strategy, risk management and transparency in disclosures. Many stakeholders—including policymakers, investors, civil society, and regulators—expect insurers to support an orderly and just transition, recognizing their systemic influence as risk managers, risk carriers, and long-term institutional investors.

In this context, transition plans serve as a core strategic tool. They enable insurers to define a long-term ambition, establish a structured approach for implementation, and communicate the role they intend to play in shaping a resilient and sustainable future. When grounded in the TBS Principles,

3 MunichRe-Mediarelease2025-NatCat2024.pdf

4 Availability, Affordability, and Adequacy of Insurance in Areas Impacted by Climate-related Risks

transition plans can evolve from compliance-oriented documents into integrated strategic frameworks that support strategic decision-making across the organization. It should be noted that transition plans which fall outside full adherence to TBS principles can also effectively support transition.

Relationship to prior FIT deliverables

This guidance builds directly on the earlier reports published by the FIT:

- Closing the Gap[5] introduced the global momentum behind transition plans and highlighted the significant gap in guidance for insurance-specific approaches.
- Underwriting the Transition[6] offered deep-dive underwriting guidance, outlining how insurers, reinsurers, and brokers can embed transition considerations across the value chain.
- A Total Balance Sheet Transition[7] introduced the TBS Transition Plan Principles and established a conceptual framework for integrating underwriting and investment decisions into a single, coherent transition plan.

This fourth deliverable is the practical implementation companion to the earlier guidance. It turns the TBS Principles into practice, providing practical guidance, market insight and case studies, as well as tools for translating high-level ambition into coordinated and credible internal actions. It recognizes both the complexity and diversity of the insurance industry, and the need for scalable approaches that reflect different business models, geographies, and regulatory contexts. It is designed to remain consistent with widely used transition planning disclosure expectations (including the UK Transition Plan Taskforce (TPT) Disclosure Framework) while retaining the insurance-specific considerations highlighted across the FIT series.

Taken together, the FIT series provide a progression from the “why”, to the “what”, and now to the “how”. This deliverable is intended to help insurers move from ambition to implementation by translating high-level principles into practical governance, portfolio, engagement, measurement and capital-management actions, while remaining grounded in industry and geographical realities.

Summary of the TBS Principles and key considerations

The TBS Transition Plan Principles provide a foundation for aligning actions across the balance sheet. The TBS framework comprises six interrelated principles, each of which builds on and reinforces the others. Together, they provide a coherent and progressive approach, moving from strategic intent through to detailed execution, while embedding consistent ways of working across the company. The principles are not intended to be applied in isolation; they are designed to operate as an integrated system, with outputs from one principle acting as inputs to another, and with increasing levels of detail as activity moves from strategy through to embedding. They encompass:

1. A Unified Strategic Ambition
2. Mutually Reinforcing Actions

5 Closing the Gap: The emerging global agenda of transition plans and the need for insurance-specific guidance—United Nations Environment Programme Finance Initiative

6 Underwriting the Transition: A deep-dive transition plan guide for insurance and reinsurance underwriting portfolios—United Nations Environment Programme Finance Initiative

7 A Total Balance Sheet Transition: A holistic transition plan guide linking the underwriting and investment portfolios of insurers and reinsurers—United Nations Environment Programme Finance Initiative

3. Coordinated Engagement
4. Coherent and Holistic Measurement of Progress
5. Unified Oversight and Incentives
6. Financial Resilience and Solvency

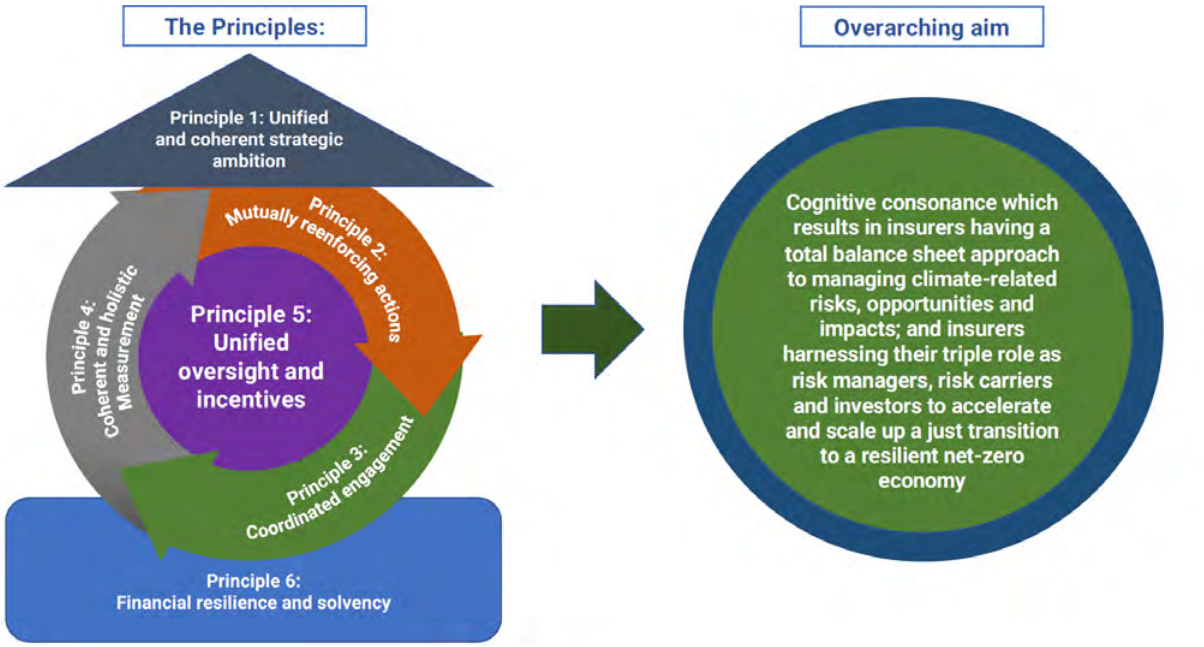

Figure 1: Illustrative TBS transition planning architecture, showing how the six principles connect

These principles reinforce the need for proportionality and pragmatism. Insurers vary widely in size, capital structure, business mix, market footprint and regulatory environment. The TBS approach is therefore designed to be adaptable, enabling each organization to focus on the most material areas while maintaining coherence with its broader transition ambition. Trade-offs are inherent, including between decarbonization and client affordability, and between transition risk reduction and near-term competitiveness. The TBS lens can also reveal opportunities that siloed approaches may miss—underwriting innovation in emerging climate-related technologies can create new investment opportunities. The TBS approach provides a structured way to navigate these tensions and opportunities transparently and consistently.

1.1 How to use this guide

This guide is an implementation companion for insurers and reinsurers. It is intended to help firms translate the six TBS principles into a credible transition plan that is operational, proportionate and decision-useful. It should be used as a directional guide rather than a prescriptive checklist. A large, internationally active composite insurer is used as a reference archetype. Additional considerations are provided for life and health insurers, non-life carriers, reinsurers, small and mid-sized insurers in advanced markets, and insurers operating primarily in emerging markets. For smaller firms and those operating in less mature geographies with associated data limitations, expectations should be commensurately reduced.

Recommended sequence

In practice, many firms will likely progress through the principles in a broadly consistent order. Start with Principle 1 to agree a board-approved ambition and guardrails (e.g. scope, risk appetite boundaries, trade-off posture). Build the cross-balance-sheet Portfolio Map under Principle 2 to link underwriting and investment exposures to priority sectors, regions, and counterparties. Use that map to drive coordinated engagement under Principle 3, setting shared asks and escalation pathways. Establish the measurement architecture under Principle 4, including a balanced scorecard with clear ownership and data lineage. Embed delivery through governance and incentives under Principle 5, and then integrate financial resilience under Principle 6 by using scenario analysis and stress testing to inform underwriting strategy, investment decisions, reinsurance, and capital planning. Iteration is expected: outputs from later principles (e.g. stress testing results or metric feasibility) may require refinement of earlier choices.

How this guide supports practitioners:

- Leading practice guidebook—the case studies provide practical guidance surrounding leading practice globally, and how common challenges were addressed in different contexts.
- Proven process steps—a guide to the steps necessary to support the development of a TBS transition plan.
- Benchmarking rule of thumb—questionnaire and interview insights can provide directional market context, but firms should use them carefully and not as a substitute for their own materiality assessment, business model analysis and regulatory obligations.
- Direction, not prescription—the principles and this guidance should be used as a navigational compass, not a checklist. Insurance and reinsurance companies should apply these proportionately, focusing on materiality.

Overview of the TBS Principles and associated deliverables

This guide presents a flexible approach to TBS transition plans. Designed as a quick reference guide, Figure 2 provides a summary across each principle outlining:

- Key inputs required
- Primary outputs and deliverables
- Roles and functions typically involved

More detailed guidance for each principle is provided in the sections that follow. Common implementation challenges—including data gaps, trade-offs and short-term versus long-term tensions—are addressed in Section 8 and referenced throughout the principle-level guidance. Further tools are provided in the Appendix, including an Implementation Checklist, Regulatory and Supervisory Framework Map, as well as examples of a Portfolio Map and a Divergence and Trade-off Register.

Principle	Inputs	Outputs	Who should be involved?
Principle 1: Unified and Coherent Strategic Ambition (Strategic ambition and risk appetite)	Existing business strategy. All relevant climate information including scenario analysis against strategy; claims data and loss patterns; transition pathways and counter-party readiness Materiality assessment identifying material Issues, Risks and Opportunities (IROs) Regulatory and supervisory expectations Societal and market signals including affordability pressures and customer vulnerability profiles	▪ Strategic ambition: Inspiring document for internal and external communication ▪ Executive summary for executive committee (Exco) and Board approval ▪ TBS Transition Ambition Document: Detailed process, inputs, outputs and choices made ▪ Documented risk appetite framework defining tolerances for transition, physical and reputational risks ▪ Clarification of where divergence between functions is expected and justified ▪ Governance triggers and escalation pathways when tolerances are breached	**LEAD: Teams responsible for sustainability and strategy** Key contributors: ▪ Insurance business functions—Underwriting and product teams, claims, reinsurance ▪ Investment teams ▪ Risk, actuarial and finance teams ▪ Legal, compliance and regulatory affairs ▪ Communications and external affairs ▪ Operations, data and IT ▪ Customer and distribution teams
Principle 2: Mutually Reinforcing Actions	Climate transition ambition and materiality assessment Underwriting and insurance strategy including risk appetite, product and portfolio steering and client engagement strategies Investment strategy, including asset-allocation intentions, and stewardship and engagement approaches	Portfolio map capturing: Sector/sub-sector; geography; counter-party/portfolio segment; exposure type; role (underwrite/invest/both); renewal and decision timing; transition readiness indicator; physical risk and nature sensitivity flags; current policies applied; engagement status and escalation stage	**LEAD: Sustainability team** Providing input: ▪ Insurance business functions—Underwriting and product teams, claims, reinsurance ▪ Investment teams ▪ Risk, actuarial and finance teams ▪ Compliance and regulatory affairs teams

Principle	Inputs	Outputs	Who should be involved?
Principle 3: Coordinated Engagement	Agreed mutually reinforcing actions (key drivers of specific engagement action) Portfolio scenario analysis to guide specific engagement topics and companies	Agreed list of companies where collective cross-organizational engagement will be prioritized Agreed engagement objectives, topics and escalation process	**LEAD: Sustainability team—co-ordination and engagement framework design** ▪ Distribution teams—Lead client engagement ▪ Investment stewardship/responsible investment teams—Lead investee engagement ▪ Underwriting teams ▪ Risk and capital teams—Define escalation triggers ▪ Exco—Point of escalation
Principle 4: Coherent and Holistic Measurement of Progress	▪ Transition ambition ▪ Portfolio map (from Principle 2) ▪ Theory of change (from Principle 1) ▪ Engagement objectives (from Principle 3)	A coherent measurement framework integrating underwriting and investment metrics, including a balanced set of indicators spanning physical and transition risk Clear documentation of assumptions, proxies and data limitations	**LEAD: Sustainability team** ▪ IT team—Data and technology teams ▪ Finance team ▪ Underwriting and Investment teams—To agree metrics to be embedded into performance ▪ External partners (e.g. data partners)
Principle 5: Unified Oversight and Incentives	▪ Clearly defined transition ambition and risk appetite across the total balance sheet ▪ Management level accountability and governance arrangements ▪ Training materials on climate, nature and social risks ▪ Remuneration and incentive governance framework	▪ A clear governance mandate assigning Board-level oversight for the integrated transition plan ▪ Integrated incentive mechanisms ▪ A structured escalation process for managing misalignments between underwriting and investment decisions ▪ A capability-building plan outlining training requirements	**Board and Executive Committee** ▪ Sustainability team ▪ Finance team ▪ HR team ▪ Disclosure team

Principle	Inputs	Outputs	Who should be involved?
Principle 6: Financial Resilience and Solvency	▪ Transition ambition and risk appetite ▪ Balance sheet exposure data ▪ Climate datasets ▪ Client and investee information (e.g. transition plan credibility, adaptation measures)	▪ A clear view of solvency vulnerabilities across underwriting and investment portfolios ▪ Evidence-based adjustments to underwriting appetite and investment allocation ▪ Forward-looking scenario insights on how climate risks may shape future balance-sheet resilience and capital needs ▪ Insights that shape the overall business strategy and climate ambition	**Board and Executive Committee** ▪ Investment and underwriting teams ▪ Strategic asset allocation (SAA) team ▪ Actuarial team

Figure 2: Summary of the inputs, outputs and actors for the activity aligned to each principle

1.2 Cognitive consonance operational test

Cognitive consonance: The consistent application of transition intent and action across an insurer's lines of business, even where underlying circumstances mean that different decisions are taken about how to engage with the transition.

The six TBS Principles are designed to be applied iteratively, not just at the point of drafting a transition plan. To support the move to cognitive consonance, a practical operational test is provided below. Its purpose is not to force identical decisions across underwriting and investment—but to ensure that wherever differences exist, they are intentional, evidence-based and consistent with the insurer's theory of change, transition guardrails and governance arrangements.

The test should be applied whenever the TBS transition plan is reviewed or updated and whenever there is a material change in strategy, underwriting appetite, stewardship approach, investment mandate, policy or regulation.

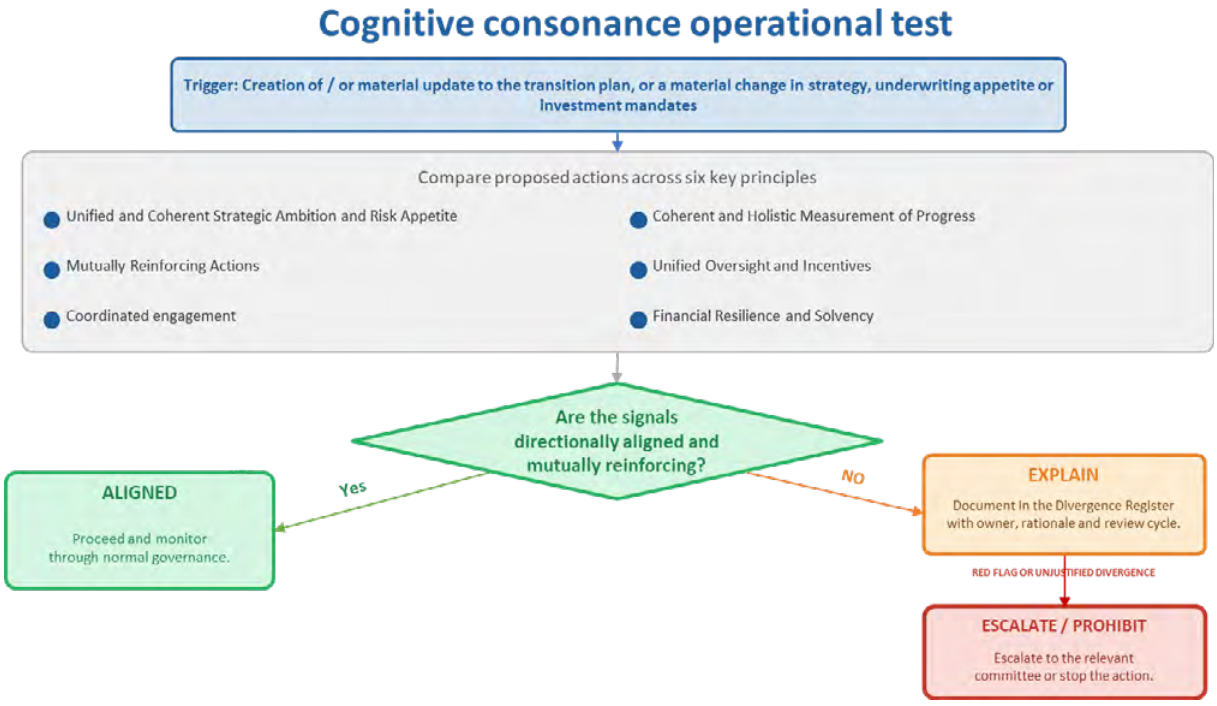

Figure 3: Cognitive consonance operational test

At a minimum, the test should compare the following elements across the balance sheet:

- The insurer's theory of change and non-negotiable guardrails
- Underwriting stance, including risk appetite, coverage conditions and client expectations
- Investment mandate, portfolio construction and stewardship approach
- Engagement and escalation pathways across clients, investees, suppliers and policymakers; and public statements, targets and disclosures

How to respond to divergences

Where the test identifies divergence, the appropriate response depends on its nature and significance. The following framework provides a practical guide:

- **Aligned:** Underwriting and investment positions are directionally consistent and mutually reinforcing. No further action required.
- **Explain:** Divergence is acceptable but requires a clear rationale, a time-bound review and documented controls.
- **Escalate:** Divergence is significant enough to require committee review, active challenge and a formal decision.
- **Prohibit:** Divergence breaches the insurer's stated guardrails, non-negotiables or public commitments and must be resolved.

Some divergences will be justified due to differences driven by time horizon, regulatory constraints, portfolio structure, capital requirements, policyholder obligations, or transitional support strategies. For example, a managed phase-out with conditions and milestones can be appropriate, provided they are documented. The most significant warning signs are increasing investment exposure to a sector where underwriting is tightening or withdrawing (or vice versa) without a documented rationale; inconsistent escalation outcomes between underwriting and stewardship, or conflicting public statements across business lines.

Examples of divergences

- Red-flag misalignments may include:
  - Increasing investment exposure to a sector or issuer where underwriting is tightening or withdrawing (or vice versa) without a documented rationale;
  - Inconsistent escalation outcomes between underwriting and stewardship, or conflicting public statements across business lines
- Potentially acceptable divergences (with documentation) include:
  - Differences driven by time horizon, liquidity needs, regulatory constraints, portfolio structure, policyholder obligations, or transitional support strategies (e.g. a managed phase-out with conditions and milestones)
- Minimum documentation requirements:
  - Maintain a Divergence Register capturing the divergence, rationale, evidence, accountable owner, governance body, review cycle and escalation triggers. This should operate as a live management tool rather than a one-off disclosure annex.

Maintaining a record

Where divergence is identified and accepted, it should be documented through the Portfolio Mapping exercise in Principle 2, capturing the nature of the divergence, the rationale, relevant supporting evidence, the accountable owner, the governance body responsible, the review cycle, and the escalation triggers. A template is provided in the Tools and Appendix section.

Example of acceptable divergence: An insurer has set a clear strategy, grounded in its theory of change, to deploy its capabilities in ways that maximize support for the transition according to the duration and nature of its involvement. As a result, its investment mandate states that it has limited appetite to invest in oil and gas majors that do not provide a clear, measurable explanation of how they will transition and protect value over a 10–30 year horizon. By contrast, its insurance business typically takes one-year positions and is therefore comfortable continuing to support the sector, but with an intention to overweight coverage towards the higher-transition elements of oil and gas operations (e.g. Carbon Capture, Utilization and Storage (CCUS) performance guarantees).

2. Principle 1: Unified and Coherent Strategic Ambition

A. Strategic Ambition

What this principle means

A unified, TBS Strategic Ambition can provide the foundation for coherent decision-making across underwriting and investments, or business lines within one insurance organization. A credible and unified ambition recognizes that the insurance industry has significant influence on real economy outcomes and the specific role that different insurance organizations play within that ecosystem.

For those organizations looking to achieve a north star ambition, leading practice is through the creation of a transition plan document which is forward-looking, measurable and science-based. However, it is noted that less mature organizations may start with an ambition which is more qualitative while they build towards leading practice over time. The Strategic Ambition needs to be rooted in and integrated into the overall business strategy, operating in alignment and approved by the Board. The ambition should be achievable, yet stretching, and something which both builds momentum, and inspires across the business.

A Strategic Ambition should not only cover emissions reduction and achieving net-zero aligned outcomes, but also the transition towards a climate-resilient, just, and nature-positive economy. For some organizations who are more mature in their transition planning journey, the ambition may be a fully integrated “sustainability” ambition where a broad range of social and environmental topics are considered. For others who are embarking on their journey this may be a climate-only transition plan.

Why the principle is important

The TBS Strategic Ambition communicates externally how the organization is using their whole balance sheet to support transition. It provides transparency, builds credibility, and demonstrates that the organization has a coherent, and forward-looking plan for managing climate and transition risks and opportunities. A credible Strategic Ambition is important because it provides the reference point for governance, portfolio steering, external communication and internal escalation. Without it, balance-sheet coherence becomes difficult to assess, and trade-offs are more likely to be managed inconsistently across functions.

The required inputs:

- Existing business strategy
- Scenario analysis performed against that business strategy
- Materiality assessment informed by relevant regulatory and reporting frameworks (for example CSRD/ESRS double materiality), identifying the material impacts, risks, opportunities and dependencies most relevant to the business model

The process to be followed

The process of defining the Strategic Ambition may begin with the existing business strategy, rather than treating transition as a parallel or purely sustainability-led exercise. The ambition could reflect a clear view of how transition will reshape the organization's current strategy, both in terms of risk (e.g. insurability, capital strain, liability exposure, market disruption) and opportunity (e.g. new products, growth sectors, enhanced resilience, client relevance).

The Strategic Ambition should also be reflected in the insurer's business and financial planning cycle. In practice, this means linking the ambition to the three-to-five-year business plan, underwriting plan, reinsurance purchase strategy, strategic asset allocation, capital management framework, liquidity and asset-liability management (ALM) approach, claims strategy, reserving assumptions and Own Risk and Solvency Assessment (ORSA) or equivalent solvency assessment. This link is critical to ensure the transition plan is not a parallel sustainability document but a management tool that informs resource allocation and financial resilience.

This process can be led by the sustainability team working in partnership with the strategy team, acting as the co-orchestrators ensuring that they represent not only climate considerations, but also nature and other environmental and social areas. This can be delivered through a series of structured, cross-functional workshops involving strategy, underwriting, investments, risk, finance, and relevant business leaders, which is critical to ensure that the TBS approach is taken. These workshops are used to test, challenge, and ultimately agree the climate ambition, ensuring it is both credible and decision-useful.

Step 1: Define the purpose and boundaries of the Strategic Ambition

This step establishes the strategic intent and guardrails for the ambition. The first foundational question is the purpose of the ambition—is it principally a strategic steering tool, a governance and risk management reference point, an external communication document, a basis for capital reallocation, or all of these? Clarity of purpose is essential if the ambition is to shape decisions rather than remain aspirational.

- Support in cross-group decision-making, aligning exposures on one side of the balance sheet with opportunities on the other, and vice versa
- Guide long-term business strategy and portfolio steering
- Inform underwriting and investment decision-making
- Set risk appetite and escalation thresholds
- Meet regulatory and supervisory expectations
- Provide a coherent external narrative to stakeholders

Two additional questions are critical at this stage:

1. What level of ambition are you seeking? A climate ambition, or do nature and just transition also form core components, essentially creating a "Transition Ambition", or something in between? Organizations may already have ambitions in other areas such as nature and human rights, and this step can be an important opportunity to integrate the different existing ambitions into a coherent strategy.

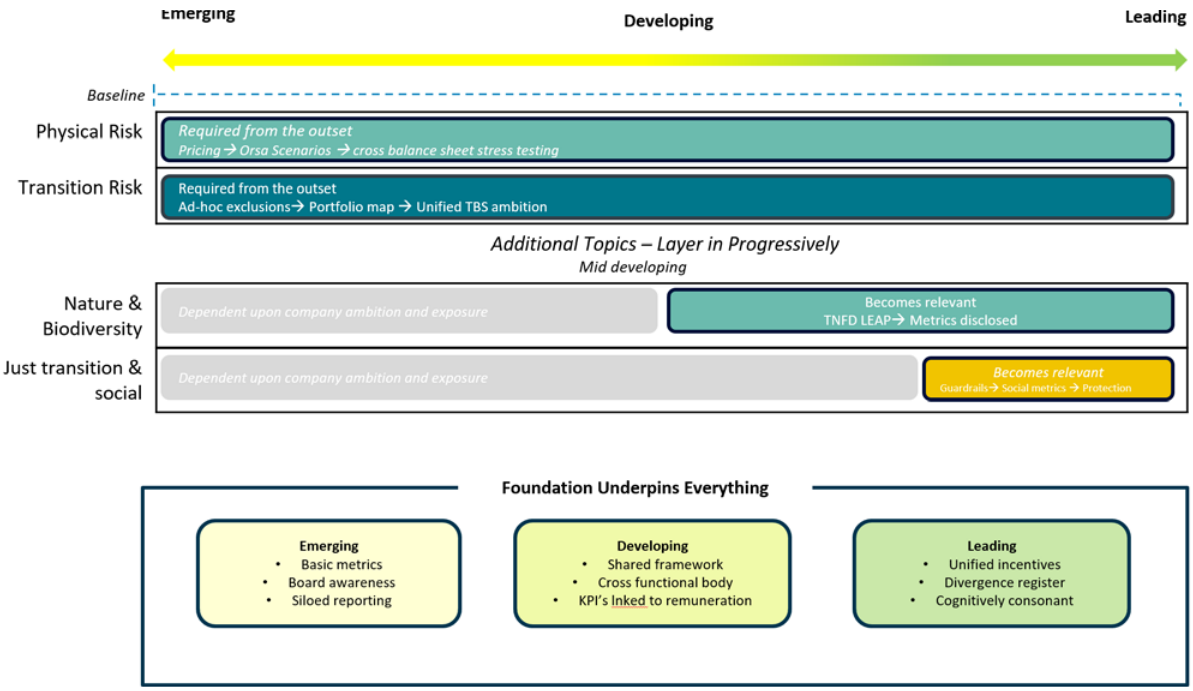

Figure 4: Illustration of maturity of Strategic Ambition across various topics

2. What are the boundaries of the Strategic Ambition? Key considerations typically include:

   - Fiduciary duty as understood in a modern sense. Regulatory and legal opinion in many jurisdictions increasingly confirm that acting in beneficiaries' long-term interests requires consideration of systemic risks—including climate change—and the intergenerational consequences of decisions taken today, not just near-term financial returns.

   - Solvency and capital adequacy, ensuring that transition commitments do not compromise the financial soundness of the organization or its ability to meet obligations to policyholders.

   - Continuity of cover in markets where insurance is socially and economically essential, recognizing that withdrawal from vulnerable communities has systemic consequences wider than the balance sheet which must be addressed in the ambition.

   - Legal, regulatory, and contractual constraints—including existing policymaker commitments and regulatory and prudential requirements.

At this stage, it may be helpful to not only consider evolving interpretations of fiduciary duty from regulators but also use insights from pension or policyholder surveys (where available), investors, or wider society to understand stakeholder expectations around risk, sustainability, and long-term outcomes. It is also important to explicitly acknowledge products where there may be tensions between short-term financial performance and long-term resilience. This is particularly relevant where underwriting and investment decisions affect the same sector, or counter-party, and are measured against different metrics—annual underwriting profitability on one side, multi-year portfolio alignment on the other. Without explicit acknowledgement, these structural differences can produce decisions that appear rational in isolation but are incoherent at the balance sheet level.

The output of Step 1 should be a clear set of design principles and non-negotiables that frame all subsequent ambition setting. In the context of Strategic Ambition, it may be helpful to note how these principles will impact across the organization, and where their application may be more challenging.

Step 2: Understand and agree the current position

This step builds a shared, fact-based understanding of where the organization is starting from. It forms a critical input into the formation of the Strategic Ambition, ensuring the ambition builds coherently on what already exists, does not inadvertently contradict prior commitments, while grounded in what is achievable.

2.1 Review existing commitments and understand external expectations and thinking

This includes any existing climate or sustainability targets—including net zero or emissions-reduction commitments—public statements, exclusion and engagement policies, and escalation approaches. The organization must also understand the external reference points against which it will be judged, including:

- Industry and peer benchmarks.
- Regulatory and supervisory expectations across jurisdictions.
- Relevant climate pathways (e.g. global and sectoral transition pathways).

Where possible, the ambition should be rooted in current climate and sustainability science and best practice thinking so that it reflects real-world complexity, geopolitical headwinds and tailwinds, market realities and needs, not only a narrow emissions only lens. For insurers developing a broader Strategic Ambition, additional considerations may include:

- Nature-related risks and dependencies, recognizing the increasing interaction between climate change and biodiversity loss.
- Just transition principles, acknowledging that transition pathways will affect workers, communities, and access to essential services, but that workers and communities can also affect the pace of the transition. Furthermore, disorderly withdrawal of insurance can exacerbate social and economic harm that can, in turn, lead to financial risks.
- Emerging expectations from industry frameworks and topic taskforces.

Spotlight: Just Transition—Cooperative insurer prioritizing affordability and resilience

A cooperative insurer highlighted a strong focus on **social outcomes alongside climate transition**, particularly around affordability, accessibility and resilience. Rather than framing just transition as a standalone concept, social considerations are embedded into product design, underwriting choices and investment priorities.

The organization provided examples where transition considerations are balanced against the need to maintain insurance availability, especially for vulnerable customers and communities. These trade-offs are overseen through central governance processes rather than left to individual business units.

Publicly available information emphasizes the organization's social purpose and its alignment with climate resilience and equitable transition outcomes.

Step 3: Define and Agree the Strategic Ambition

3.1 Theory of change

The theory of change should explain how underwriting appetite, pricing signals, product design, claims management, stewardship and capital allocation are expected to influence transition, resilience and real-economy outcomes over time—informing capital allocation.

For underwriting, this may include how appetite, capacity, coverage conditions and product innovation will evolve as transition and physical risks change and as new risks and technologies emerge. It may also outline the development of products that support adaptation or nature-positive strategies. For investments, it may include how asset allocation, stewardship and transition-investment themes will shift over time. Across both sides of the balance sheet, the logic should remain consistent with risk appetite, regulatory constraints and the organization's financial resilience.

Significant time and effort will be spent in workshops in this step, with cross-organization participants working through the options.

The theory of change should be explicit about how the insurer expects to contribute to real-economy transition, resilience and just transition outcomes. The example below is illustrative for a large composite insurer and should be adapted to the insurer's material sectors, geographies, business model and regulatory context.

Theory of change element	Composite insurer worked example
Long-term outcome	A more climate-resilient, nature-positive and just transition economy, supported by continued access to appropriate insurance, credible counter-party transition plans and capital allocation toward transition and adaptation solutions.
Enterprise ambition and guardrails	Board-approved TBS Strategic Ambition; solvency and policyholder protection as non-negotiables; affordability and insurance availability considered in vulnerable markets; legal, competition and conduct requirements respected.
Inputs	Portfolio map; sector pathways and scenarios; claims and loss trends; insured and financed emissions; client and investee transition-plan assessments; affordability and vulnerability indicators; regulatory expectations.
Underwriting and claims levers	Risk appetite, appetite statements, coverage conditions, risk engineering, product innovation, renewal engagement, adaptation incentives, claims repair/rebuild standards and escalation for counterparties without credible plans.
Investment levers	Strategic asset allocation, transition-finance themes, stewardship objectives, voting and escalation, selective restrictions or phase-outs, and investment in resilience-enabling infrastructure or technologies.
Coordinated engagement levers	Common sector expectations for clients and investees; shared engagement themes where legally permissible; separate accountable owners for underwriting and investment decisions; documented escalation pathways.
Immediate outputs	Priority counterparties and sectors identified; engagement asks agreed; portfolio steering actions defined; metrics selected; divergence and trade-off register populated.

Theory of change element	Composite insurer worked example
Short-term outcomes (1–3 years)	Improved data coverage and counter-party transition-plan quality; consistent client and investee expectations; clearer underwriting and stewardship escalation; increased transition and resilience product pipeline.
Medium-term outcomes (3–7 years)	Reduced exposure to unmanaged transition and physical risk; increased share of counterparties with credible transition/adaptation plans; improved resilience of insured communities and assets; better alignment of underwriting and investment positions.
Long-term outcomes (7+ years)	More resilient underwriting profitability, reduced climate-related capital strain, strengthened insurability and contribution to real-economy transition consistent with the insurer's ambition.
Key assumptions to test	Sector pathways remain credible; clients respond to price and coverage signals; stewardship and underwriting engagement reinforce rather than conflict; public policy supports orderly transition; risk engineering and adaptation reduce loss trends over time.
Evidence and metrics	Balanced scorecard combining insured emissions, financed emissions, transition readiness, engagement outcomes, physical-risk exposure, adaptation/ resilience indicators, affordability and availability indicators, and financial resilience metrics.

Figure 5: Worked example and template—Integrated theory of change for a composite insurer

3.2 Define and test Strategic Ambition options

A small number of clearly differentiated ambition options may be developed. Each option should explicitly outline implications for underwriting portfolios, investment strategy, capital and solvency, client and investee engagement as well as growth opportunities and market positioning and operational requirements. The focus should be on choices, not incremental variations of the same outcome.

While the direction of travel should be aligned, in practice underwriting and investment stances may sit within different options as outlined in Figure 6. Examples are not exhaustive, and the final Strategic Ambition and theory of change may not align to any of these options but somewhere in between.

Ambition option	Underwriting stance	Investment stance	Capital implication	Example narrative
Pacesetter	Proactive engagement; conditions/ phase-outs for laggards; develop transition products.	Tilt strongly to transition-aligned assets; selective divestment; intensified stewardship.	Higher near-term transition risk; potential long-term opportunity and resilience.	We will lead the market in pricing and steering transition risk.

Ambition option	Underwriting stance	Investment stance	Capital implication	Example narrative
Follower	Gradual adjustments; follow regulatory signals; targeted conditions on high-risk segments.	Incremental tilts aligned to client demand and clear market signals.	Moderate risk; aligned with market average.	We will meet expectations and respond to client needs as markets evolve.
Defender	Maintain appetite; focus on risk accuracy and short-term profitability; limited steering.	Primarily returns-focused; limited explicit climate tilt; stewardship as compliance.	Higher exposure to future regulatory/ physical risks; potential repricing shocks.	Our primary duty is near-term policyholder value and risk-accurate pricing.

Figure 6: Illustrative ambition options showing how underwriting stance, investment stance and capital implications can vary across different strategic choices.

Each ambition option should be tested against transition and physical risk scenarios, likely policy and market pathways, affordability and insurability impacts, financial performance and capital resilience. The purpose is to identify where an ambition is credible in principle, where it remains fragile in practice, and where mitigation or sequencing will be required.

3.3 Select, articulate and pressure-test the Strategic Ambition

Select a Strategic Ambition that is cognitively consonant (see Cognitive Consonance Operational Test, Section 1.2), time-bound, and anchored in existing business strategy. The ambition should articulate both the organization's current and future position, balancing risk management, opportunity capture, as well as operationalized through the transition plan and articulated in plain, defensible language, suitable for both internal decision-makers and external stakeholders. Before proceeding to step 4, the ambition and its narrative should be pressure-tested against:

- Regulatory scrutiny
- Investor and rating-agency questioning
- Civil society and media challenge
- Internal skepticism

This should be a typical process within an organization which is completed with any external publication. This helps identify where there may be perception of over-commitment, clarify ambiguities, and make assessments surrounding greenwashing or litigation risks.

Step 4: Formal governance and approval

Having been co-created, it is assumed that all involved agree on the Strategic Ambition. The next step is to gain approval through the organization’s formal governance structure. Aligning senior stakeholders on the Strategic Ambition, prior to writing the TBS Transition Plan is a critical step prior to significant work being undertaken. This approval process typically includes:

- Sustainability team (design and coherence)
- Risk team (risk appetite and ongoing monitoring of business resilience)
- Finance team (impact on balance sheet and 3-year plan)
- Executive Committee (strategic ownership and trade-offs)
- Board (ultimate accountability)

Approval should confirm not only the ambition itself, but also how it will be used, who owns the delivery of each element, and how progress will be monitored and challenged. Within the Strategic Ambition, each business unit needs to own their own element of that ambition, and its overall alignment to the strategy.

The expected outputs

A clear articulation of the Strategic Ambition at a number of levels:

- Strategic ambition: An inspiring document used for internal and external communication
- Executive summary document for Exco and Board approval
- TBS Strategic Ambition Document: Outlining the detailed process, inputs and outputs, and the choices made through Steps 1–4.

Who should be involved?

To create a Strategic Ambition which is cognitively consonant, with clear ownership and strong governance, expert input is required from across the business—it is critical that the relevant stakeholders are in the room. Those who need to be included in this process are a combination of the following teams (list not exhaustive):

- Sustainability team—Leading the transition strategy exercise, owning the process and the documentation of outputs.

Involved in the process as key contributors:

- Strategy and corporate development
- Insurance business functions: Underwriting and product teams, claims, reinsurance
- Investments and asset management: Investment teams. Risk, actuarial and finance
- Legal, risk, compliance and regulatory affairs functions.
- Communications and external affairs
- Operations, data and IT

Additional considerations

The considerations below are intended to help firms tailor this principle to their businesses while retaining coherence and remaining proportionate to their business model and market context.

Type of insurer	Considerations
Life insurer	▪ The primary coherence challenge is that underwriting (protecting lives and health) and investment (long-duration asset management) operate to different timescales and risk management approaches. The ambition must be framed in terms that are equally meaningful and operational for both functions—a purely emissions-reduction narrative will not land for underwriting; a purely protection-gap narrative will not land for investments ▪ The Strategic Ambition must be "cognitively consonant"—for life insurers, this specifically means linking actuarial assumptions about long-term mortality and morbidity trends to the same climate scenarios used to stress-test the investment portfolio, so that both sides of the business are working from the same view of the future ▪ With-profits and policyholder obligations may create legitimate constraints on transition pace; these should be made explicit guardrails in Step 1 rather than left as unstated tensions that resurface later, since unacknowledged divergences undermine the ambition's credibility with internal stakeholders
Health insurer	▪ The coherence challenge is that climate ambition is most naturally framed around emissions and investment alignment, yet health insurers' most material climate exposures run through claims trends rather than portfolio carbon. The ambition should be framed around climate resilience outcomes—reduced climate-driven health claims, improved population resilience—as the unifying logic that makes sense on both sides of the balance sheet ▪ Social and just transition dimensions should be given equal weight to climate in the ambition's theory of change, since health affordability, access and health equity are directly affected by both underwriting decisions (pricing, exclusions) and investment decisions (stewardship of healthcare and infrastructure companies)
Non-life insurer	▪ The coherence tension is between short annual underwriting cycles and the multi-year investment horizon required for transition. The ambition must be "achievable, yet stretching"—for non-life insurers this means the ambition must translate into levers operable within the annual renewal cycle (underwriting guidelines, pricing signals, conditions) as well as longer-term capital allocation, rather than sitting at a level of abstraction that neither function can act on ▪ Affordability and insurance availability tensions are most acute for non-life insurers in climate-exposed regions. The ability to continue providing insurance where it is socially and economically essential is a core boundary constraint—this should be written into the ambition's design principles and non-negotiables from the outset, ensuring it is a coherent constraint that both underwriting and investment functions recognize ▪ Principle 2 case study makes clear that "total balance sheet coherence does not require every action to be identical" but does require "deliberate coordination so that exclusion policies, engagement priorities and transition signals are broadly reinforcing"—for non-life insurers this means the ambition should explicitly address how underwriting exclusions and investment exclusions will be aligned or how documented divergences will be justified

Type of insurer	Considerations
Reinsurer	▪ The coherence challenge for reinsurers is that their underwriting influence operates indirectly through cedants, while their investment influence operates directly through their own portfolios. The ambition's theory of change must articulate both levers clearly and consistently—what transition outcomes the reinsurer expects to drive through treaty terms and cedant engagement, and what it expects to drive through capital allocation ▪ As the document notes, reinsurers have a market-shaping role through their support to primary insurers. The ambition should address how this systemic influence will be exercised coherently—a reinsurer whose investment portfolio is aligned but whose treaty book imposes no transition expectations on cedants lacks cognitive consonance at the most fundamental level
Insurer in developing markets	▪ The coherence tension is between global transition ambitions (which may reference advanced-market frameworks) and local realities (Nationally Determined Contributions (NDC) trajectories, protection gap imperatives, data constraints). The ambition must "reflect real-world complexity rather than a narrow emissions-only lens"—for developing market insurers, this means the theory of change must be rooted in the local transition pathway, not imported wholesale from a different regulatory context ▪ Protection gap reduction and insurance penetration are social objectives with direct links to both underwriting strategy (expanding access) and investment strategy (investing in climate-resilient local assets). Framing these as a shared organizing logic for both sides of the balance sheet delivers cognitive consonance in a way that a climate-only framing may not
Small and mid-sized insurers in advanced markets	▪ Risk appetite should be scaled to decision-usefulness. Smaller insurers can begin with qualitative tolerances, exposure thresholds and delegated authority rules for the most material sectors or perils, then build quantitative limits over time. Where data, modelling or stewardship capabilities are outsourced, accountability for assumptions, exceptions and conduct controls should remain with the insurer.

Case study: Principle 1—Unified and Coherent Strategic Ambition

Large diversified insurer with integrated balance sheet ambition
One large, diversified insurer described how it had established a single enterprise level transition ambition covering underwriting, investments, operations and claims. This ambition is articulated at group level and embedded through strategic planning, risk management and governance processes rather than being confined to a standalone sustainability document.

What makes this example useful is that coherence does not rely on identical metrics or levers in every business area. Instead, the group-level ambition is translated into business-line decisions through shared planning, governance and management processes, allowing different portfolios to move in the same strategic direction while recognizing their distinct operating realities.

The organization has iterated its transition plan over multiple cycles, using each iteration to expand scope and deepen integration across business lines. Governance structures ensure that the same long-term ambition is referenced by underwriting, investment and operational teams, even where metrics and levers differ across activities.

Public disclosures indicate that the transition plan is monitored through internal management information and reflected in annual reporting and climate disclosures, reinforcing consistency between ambition, delivery and external communication.

The case therefore highlights a practical lesson for peers: a credible TBS Strategic Ambition is less about uniform targets everywhere than about ensuring that underwriting, investment and operational teams work to a common direction of travel and communicate it consistently through internal management information and external disclosures.

B. Risk appetite (Principle 1)

What the principle means

A well-defined risk appetite provides the framework through which an insurer determines the level and types of climate and transition related risks it is willing to assume across its underwriting and investment activities. It sets clear boundaries and decision criteria that guide day-to-day choices, ensuring exposures remain aligned with the insurer's overall tolerance (risk appetite limit) to climate and reputational risk. For more mature insurers, this risk appetite may also consider other environmental and social risk broader than just climate. In the context of the TBS, this becomes about aligning risk appetite, and where not aligned, being cognizant about the differences.

Why the principle is important

Embedding TBS principles into the risk appetite ensures that climate-related risks are treated consistently across the organization, feeding into the risk strategy and aligning to the overall strategic and financial planning processes. A coherent risk appetite statement prevents contradictions; for example, underwriting restrictions on high-emitting sectors accompanied by increased investment exposure to the same sectors.

A TBS-aligned risk appetite should incorporate an understanding of material inbound and outbound climate-related impacts to the business through scenario analysis and other methods such as

materiality assessments. This may also incorporate an assessment of potential customer impacts as changes to pricing, coverage or product availability driven by transition or physical risk considerations may affect affordability and access. Insurers could identify where such consequences may occur and evaluate mitigation options such as gradual implementation, targeted engagement or collaboration with public authorities to strengthen resilience. This is essential for maintaining fairness and supporting just transition outcomes.

A TBS-aligned risk appetite should reflect both inbound risks to the business and outbound impacts of business decisions on customers, markets and transition outcomes. It should therefore consider not only profitability and capital, but also affordability, availability, fairness and just transition implications where these are material.

Some differences between underwriting and investment practices will remain both reasonable and necessary. Underwriting portfolios may adjust more gradually due to regulatory or client obligations, while investment portfolios may move more quickly in response to market developments. Differences in liquidity requirements, product structures and jurisdiction specific regulation may also create divergence. Documenting these differences explicitly helps avoid unintentional inconsistencies and ensures that divergence is grounded in justified factors. This documentation is particularly important for firms who are located across different jurisdictions, with different decarbonization trajectories and varying regulatory requirements.

The required inputs

- Claims data and loss patterns, which reveal how physical risk trends are evolving and where adaptation or risk management and loss prevention measures may be needed
- Mapping of the transmission channels of the material risks, including how climate, nature and social risks can impact the business both directly and indirectly
- Climate transition pathways and scenarios, including central or base case scenarios showing where global and national trajectories are currently tracking
- Counter-party transition readiness insights, drawn from client transition plans, stewardship intelligence and market disclosures
- Regulatory and supervisory expectations, which shape prudential and conduct considerations
- Societal and market signals, including affordability pressures, sectoral transformation trends and customer vulnerability profiles

The process to be followed

Defining a TBS-aligned risk appetite typically involves the following steps:

- Interpreting the transition ambition and determining what it implies for underwriting capacity and investment direction
- Identifying priority sectors, geographies and themes based on transition readiness, physical risk exposure and societal relevance
- Translating ambition into feasible, actionable levers, such as changes to underwriting criteria, product innovation opportunities, stewardship expectations or thematic investment strategies
- Assessing trade offs and unintended consequences, including potential impacts on affordability, competitiveness or sectoral transition progress

- Setting risk tolerances for transition, physical and reputational risk, and defining escalation pathways when thresholds are approached or breached, using both qualitative and quantitative indicators as appropriate
- Documenting justified differences between underwriting and investment decisions where structural or regulatory factors require divergent approaches
- Reviewing, challenging and approving the priorities and risk appetite through cross-functional governance structures

The expected outputs

The process should deliver a documented risk appetite framework that:

- Defines risk tolerances for transition, physical and reputational risks
- Clarifies where divergence between functions is expected and justified
- Identifies measures to manage affordability, fairness and just transition considerations
- Establishes governance triggers and escalation pathways when tolerances are breached or approached.

Who should be involved?

Developing a TBS-aligned risk appetite requires coordinated input across the organization. Participants typically include:

- Underwriting and claims leadership, to evaluate appetite and sectoral risk dynamics
- Investment teams, to align exposure management and stewardship expectations
- Risk and actuarial teams, to define tolerances and ensure prudential integrity
- Finance and capital management, to align risk appetite with solvency and balance-sheet resilience
- Sustainability teams, to ensure consistency with climate-related expectations
- Customer and distribution teams, to assess implications for affordability and access
- Legal and compliance, to oversee governance, liability management and disclosure accuracy

Additional considerations

The insurer-type considerations below should be used to adapt the risk appetite framework to different business models while preserving an enterprise-level view of balance-sheet coherence.

Type of insurer	Considerations
Life insurer	▪ It is the case that "some differences between underwriting and investment practices will remain both reasonable and necessary"—for life insurers, differences in liquidity, duration and product structure are legitimate sources of divergence. The coherence requirement is not alignment but explicit documentation: where the investment portfolio can move quickly on transition and the underwriting book cannot, the risk appetite statement should detail the reason(s) ▪ Longevity and mortality risk appetite should be assessed using the same climate scenarios for investment stress testing—using different scenarios for ORSA actuarial work and investment risk assessment is a structural source of incoherence that the risk appetite framework should close
Health insurer	▪ Social risk tolerances—including impacts on access, affordability and health equity—must appear in the risk appetite statement as explicit tolerances, not as qualitative commentary. This is what makes them governable and traceable across both underwriting decisions (product design, pricing) and investment decisions (stewardship objectives) ▪ As the document notes, a TBS-aligned risk appetite "may incorporate an assessment of potential customer impacts." For health insurers, this is particularly material: the risk appetite should define the acceptable level of affordability impact that transition-driven changes to pricing or coverage can create, and this limit should apply equally across underwriting and any health-related investment exposures
Non-life insurer	▪ One of the most acute coherence tests for a non-life insurer is "underwriting restrictions on high- emitting sectors accompanied by increased investment exposure to the same sectors." The risk appetite process should explicitly surface and resolve these cross-balance-sheet contradictions before the appetite statement is finalized ▪ Physical risk concentration limits should be defined at the same geographic and sectoral granularity on both the underwriting side (accumulation limits by peril and region) and the investment side (asset allocation limits in climate-vulnerable geographies)—using different geographies or different climate datasets for the two sides prevents the cross-balance-sheet view the document requires ▪ Annual underwriting cycles mean risk tolerances will be operationalized at renewal; the risk appetite framework should specify how limits translate into underwriting guidelines so that the gap between Board-approved appetite and actual underwriting decision-making is closed

Type of insurer	Considerations
Reinsurer	▪ Reinsurers' risk appetite must operate at two levels: the direct investment portfolio and the indirect underwriting exposure aggregated across cedant books. Any divergence of risk tolerances at these two levels should be explicitly documented and regularly reviewed ▪ Cedant transition readiness is itself a risk appetite consideration: the appetite statement should define the minimum credibility of transition planning expected from cedants before the reinsurer provides capacity, and how this expectation will be escalated if not met—this is the reinsurance-specific equivalent of the counter-party transition readiness consideration the document identifies for direct insurers
Insurer in developing markets	▪ Local regulatory capital requirements and solvency frameworks may constrain risk appetite in ways that differ from advanced market peers. These constraints are legitimate boundary conditions and should be explicitly documented in the risk appetite framework rather than treated as informal exceptions ▪ Risk appetite "may also consider other environmental and social risk broader than just climate." For developing market insurers, community resilience, food security and energy access may be the most material social risk dimensions and should be incorporated into the appetite framework where these are material to the underwriting portfolio
Small and mid-sized insurers in advanced markets	▪ A minimum viable portfolio map may be sufficient initially: material lines of business, sectors, geographies, largest counterparties, delegated underwriting arrangements and material investment exposures. Specialty carriers and syndicates should pay particular attention to broker, cover-holder and managing-agent data flows so that contradictions between underwriting appetite and investment positions can still be surfaced and governed

3. Principle 2: Mutually Reinforcing Actions

What the principle means

The TBS approach relies on understanding how underwriting and investment activities interact, and a Strategic Ambition that links them through a shared internal logic. For Principle 2, what matters is that the organization recognizes when decisions diverge, doing so consciously rather than by accident. For example, a composite insurer may provide travel or life insurance to an oil and gas (O&G) customer while applying a fossil fuel exclusion to investments in the sector. Equally, it may provide pensions to an O&G company but decide not to underwrite the expansion of Arctic drilling. Principle 2 focuses on building this integrated view so that actions across the organization reinforce, rather than contradict, the insurer's transition ambition.

Why the principle is important

The purpose of this principle is to ensure that underwriting and investment actions are shaped by the same transition logic rather than working at cross purposes. When they are aligned, the insurer sends consistent signals to stakeholders about the transition it supports. Mutual reinforcement does not mean identical decisions across the balance sheet; it means that where differences exist, they are intentional, understandable and governed, not accidental products of functional silos. Where alignment is not possible, the priority is to identify and manage those contradictions early.

This principle provides the foundation for the more technical work that follows, including coordinated engagement, integrated metrics and financial resilience, by establishing a shared sense of direction across the balance sheet. Recognizing that underwriting and investment client bases may not overlap, mutually reinforcing actions may require common engagement guidelines and consistent stewardship principles. Organizations should also analyze changes in metrics to distinguish the effects of market dynamics, portfolio changes and their own actions.

The inputs required

- Strategic Ambition and materiality assessment
- Underwriting and insurance strategy including risk appetite, product and portfolio steering and client engagement strategies
- Investment strategy, including asset-allocation intentions, and stewardship and engagement approaches

The process to be followed

Step 1: Build the cross-balance sheet Portfolio Map

Understanding where the two sides of the balance sheet align, reinforce one another or contradict each other requires a shared picture of exposures. That picture is the Portfolio Map. At a minimum, it should capture the following fields across both underwriting and investment portfolios. For those taking a more expansive TBS approach, additional aspects beyond physical and transition risk should also be considered, as outlined in Figure 7:

- Sector/sub-sector (and transition-critical activities). Transition finance frameworks such as those provided by TFMR, the EU Taxonomy or the ASEAN Taxonomy for Sustainable Finance may provide useful guidance
- Geographical coverage across the business (including hazard-prone regions)
- Counter-party/portfolio segment
- Exposure type: Underwriting—premium, underwriting—claims made, investments— assets under management (AUM)/credit
- Role: Underwrite only/invest only/both
- Renewal/decision timing (to align engagement and actions)
- Transition readiness/plan quality indicator
- Physical and transition risk sensitivity flags and severity ratings
- Current policies applied (exclusions, conditions, stewardship stance)
- Engagement status and escalation stage

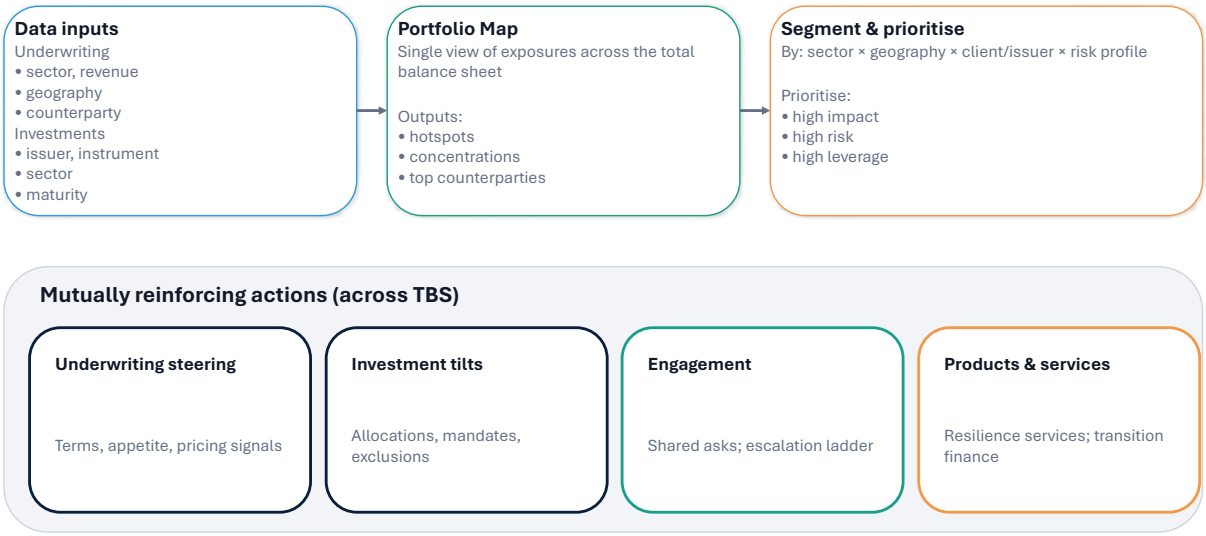

Figure 7: Approach to Principle 2—Mutually Reinforcing Actions

The first step is therefore to build a cross-balance sheet Portfolio Map that captures the insurer's underwriting and investment exposures together with the internal and external policies that shape them. At a minimum, the map should provide a coherent picture of where the insurer is exposed to high-emitting sectors, climate-vulnerable regions, transition-critical industries and nature-sensitive activities. It should also reflect key regulatory constraints, internal guidelines and market conditions that shape decision-making across both portfolios—an example can be found in the Appendix.

Case study: Principle 2—Mutually Reinforcing Actions across the balance sheet

International insurance group balancing alignment with business diversity
An international insurance group highlighted the importance of pursuing alignment, where feasible, rather than uniformly. The organization seeks to reinforce its transition ambition across underwriting and investment activities through shared exclusion principles, engagement priorities and governance oversight.

While recognizing structural differences between underwriting and investment portfolios, the firm emphasized that policies are reviewed together to reduce contradictions and ensure that actions in one part of the balance sheet do not undermine progress elsewhere. Where full alignment is not possible, exceptions are explicitly documented and governed.

This is particularly relevant for diversified insurance groups, where portfolio characteristics and business models differ materially across activities. A practical strength of the approach is that policies are considered together, with any exceptions made explicit and governed, so that differences between portfolios do not become unmanaged inconsistencies.

Public disclosures show this approach reflected in group level transition planning and sustainability statements, with consistent references to climate ambition, sector policies and target setting logic across business lines.

For those looking to achieve market leading practices an additional overlay of any nature and/or just transition considerations should also be included.

- Nature-based considerations could include information about regions with water-stress or other nature-based hazards, and nature disclosure requirements such as TNFD.
- Just transition considerations could include social risk factors such as employee dependence and worker impacts, energy access, regional economic vulnerability as well as the critical topic of insurance availability. Adaptation requirements could also be measured as part of the just transition considerations.

A well-constructed map highlights where underwriting and investment exposures intersect across sectors, regions, and topics (climate, transition, nature and just transition). These intersections often reveal opportunities for mutually reinforcing actions. For example, sectors where the insurer insures and finances the same companies, or regions where risk reduction measures could complement targeted investment in resilience. It also makes clear where differences between portfolios are reasonable. Where differences are likely to undermine the insurer's transition ambition, the map allows those issues to be identified and addressed early.

The expected outputs

- A cross-balance sheet Portfolio Map and associated Divergence Register that support steering, engagement, measurement and governance across the balance sheet.

The Portfolio Map should be used as a decision tool, not only as an exposure inventory. Once material intersections and divergences are identified, firms should determine the appropriate portfolio steering response, taking account of risk appetite, client or investee transition readiness, physical risk, affordability, policyholder obligations and financial resilience.

Steering option	Illustrative use case
Maintain with monitoring	Exposure is consistent with ambition and risk appetite; monitoring continues through normal review cycles
Maintain with engagement	Counter-party or sector remains within appetite but requires transition, adaptation or governance milestones
Maintain with conditions	Coverage, capacity, investment exposure or stewardship position is subject to defined risk engineering, adaptation, transition plan or disclosure conditions
Price for risk/adjust terms	Risk signal is reflected through underwriting, reserving or investment risk assessment, while preserving independent commercial decision-making
Reduce or phase down exposure	Exposure is inconsistent with the transition ambition unless time-bound milestones are met
Restrict new business or new investment	New exposure is limited where the activity breaches guardrails or creates unmanaged transition, physical, conduct or reputational risk
Develop transition or resilience solutions	Opportunity exists to support adaptation, resilience, transition technologies or protection-gap reduction through products, services or investment
Escalate governance or stewardship	Divergence is significant enough to require committee review, senior management challenge, stewardship escalation or board visibility

Who should be involved?

- Sustainability team—Leading the exercise, providing coordination across the organization, and documenting the outputs. Colleagues from different sustainability areas, such as environmental and social topics would also be considered.

Providing input into the exercise:

- Insurance business functions—Underwriting and product teams, claims, reinsurance
- Investments teams
- Risk, actuarial and finance teams
- Compliance/regulatory affairs teams

Cognitive Consonance Test—Examples of expected divergences and credibility red flags

The Portfolio Map will surface positions that do not align perfectly across underwriting and investment portfolios. This is expected. The test is not whether divergences exist, but whether they are understood, intentional and governed.

Generally acceptable—with documentation

- **Time horizon differences:** A managed investment phase-out in a sector where underwriting has already tightened is acceptable, provided it is time-bound with clear milestones
- **Product or structural differences:** Providing life cover to employees of a company subject to an investment exclusion is different in nature, not a contradiction in strategy
- **Transitional support:** Maintaining exposure while actively supporting a credible transition pathway—through conditions, engagement milestones or stewardship escalation—is consistent with the TBS approach if clear time limits are in place
- **Insurance availability:** Where withdrawal or repricing would leave communities uninsured, maintaining underwriting exposure may be both necessary and consistent with just transition commitments, even where investment exposure is being reduced

Red flags requiring immediate attention

- Investment exposure increasing in a sector where underwriting is tightening—or vice versa—without a documented rationale
- The underwriting and investment teams delivering inconsistent transition expectations to the same corporate client
- Divergences visible in the Portfolio Map that do not appear in the Divergence and Trade-off Register.
- Public commitments on exclusions or alignment that are not reflected in the positions shown in the map.

All accepted divergences should be logged in the Divergence and Trade-off Register with a named owner, rationale, review date and escalation triggers. A template can be found in the Appendix.

Additional considerations

The insurer-type considerations below should help firms tailor the mapping exercise to their own portfolio structure, data availability and client or cedant relationships.

Type of insurer	Considerations
Life insurer	▪ Underwriting and investment client bases may not overlap significantly. The coherence challenge is therefore not about aligning actions on the same counter-party but about ensuring that sector-level and geographic-level signals are consistent. The portfolio map should be built at sector and geography granularity. For example, a decision to underwrite group life cover for a high-emitting sector does not sit unexamined alongside an investment decision to divest from the same sector ▪ Mutual actions may require uniform engagement guidelines and consistent stewardship principles where client bases do not overlap. This means establishing a shared set of sector-level transition expectations that both the group protection underwriting team and the investment stewardship team work from, even where they are engaging different entities in the same sector
Health insurer	▪ Underwriting portfolio are unlikely to generate many direct counter-party-level reinforcing actions with the investment side. The portfolio map should therefore focus on identifying product design and pricing decisions that are consistent with investment stewardship objectives. For example, where the insurer invests in healthcare infrastructure companies, underwriting product design should not create incentives that undermine those companies' resilience ▪ Just transition and social dimensions should be mapped explicitly. Where underwriting decisions affect access and affordability in particular communities, the Portfolio Map should show whether investment decisions in those same communities are reinforcing or contradicting that position
Non-life insurer	▪ The same corporate client may appear in both the underwriting book (as an insured) and the investment portfolio (as a bond or equity holding). The portfolio map must capture all instances of this dual exposure so that the organization understands when it makes contradictory decisions and does so consciously ▪ Physical risk geography should be used as a common organizing layer across both sides of the map. Regions where underwriting appetite is being reduced due to rising hazard exposure should be examined alongside investment allocations to assets in those same regions, and documented divergences should be explicitly governed ▪ Having an underwriting exclusion on new fossil fuel projects but an investment portfolio holding bonds for an issuer with extensive capex plans for new fossil fuel exploration and extraction is making a contradictory decision. The Portfolio Map is the mechanism for surfacing this; while the Risk Appetite Framework is the mechanism for resolving or justifying it

Type of insurer	Considerations
Reinsurer	▪ The Portfolio Map operates at the level of cedant portfolios rather than individual counterparties, presenting additional challenges. Reinsurers may wish to consider excluding or limiting coverage to certain fossil fuel exposures in line with their investment policies for cognitive consonance. Differences between portfolios are reasonable in some cases. For reinsurers, cedant portfolio characteristics (geographic spread, line of business mix, local regulatory constraints) may justify different positions. These differences should be documented in the map with the reasoning—the key is that exceptions are governed, not invisible
Insurer in developing markets	▪ Data availability for portfolio mapping is likely to be the primary constraint, therefore limitations are acknowledged. A minimum viable Portfolio Map—using sector and geography as organizing dimensions with available proxy data—is more useful than deferring the exercise until perfect data exists ▪ The most important reinforcing actions are likely to be those that simultaneously reduce insurance protection gap and advance climate resilience. For example, expanding agricultural insurance while investing in climate-resilient agricultural infrastructure. The Portfolio Map should be designed to surface these positive reinforcing opportunities as well as contradictions
Small and mid-sized insurers in advanced markets	▪ Engagement should use proportionate channels such as broker dialogue, managing-agent processes, industry initiatives, reinsurer discussions and targeted stewardship through external asset managers. Coordination should not require complex central machinery, but it should include clear legal and compliance protocols so that client information, pricing signals and investment decisions remain appropriately separated

4. Principle 3: Coordinated Engagement

What the principle means

Relevant for commercial insurance and organization-wide policies, coordinated engagement strengthens the insurer's ability to guide counterparties towards credible transition and adaptation pathways by ensuring that underwriting and investment interactions are informed by a common set of priorities. Drawing on the portfolio map, insurers can identify where shared counterparties, sectors or geographies make coordination most valuable, align expectations across functions and ensure that resulting actions reinforce one another.

The greatest gains typically arise where a corporate client or sector appears in both underwriting and investment portfolios. In these cases, coordinated engagement can increase impact, create better internal insight and avoid mixed messages. For example, if a high-emitting corporate client is already being engaged by the investment stewardship team on the credibility of its climate strategy, the underwriting team can use those insights to inform decisions on coverage, conditions or exemptions under exclusion policies. This is particularly valuable where underwriting decisions depend on whether a client has a credible transition plan. Used well, this approach improves efficiency by reducing duplicated assessment effort while preserving separate accountability for underwriting and investment decisions.

Insurers should ensure that coordinated engagement arrangements are reviewed against applicable competition, market conduct and securities regulations in their jurisdictions of operation—including requirements governing information barriers and conflicts of interest under frameworks such as IAIS Insurance Core Principle (ICP) 7[8] and ICP 19[9]—Conduct of Business and Corporate Governance—recognizing that regulatory expectations in this area are subject to increasing supervisory scrutiny globally and locally.

Situations, available levers and expected level of influence

The levers available and expected level of influence will vary by insurer type and business model. Reinsurers' primary engagement lever is cedant-facing rather than policyholder-facing. Insurers operating in developing markets may prioritize community-level and public authority engagement over direct counter-party engagement.

8 ICP and ComFrame Online Tool—International Association of Insurance Supervisors
9 IAIS-ICPs-and-ComFrame-December-2024.pdf

Engagement situation	Available levers	Expected level of influence
Corporate client appearing in both underwriting and investment portfolios	Joint transition expectations at renewal; coordinated stewardship voting; shared escalation timeline	**High—Dual exposure creates significant leverage**
Corporate client in underwriting portfolio only	Coverage conditions; risk engineering requirements; renewal pricing signals; capacity restrictions	**Low/Medium—Influence limited to insurance relationship and renewal cycle**
Investee appearing in investment portfolio only	Stewardship engagement; voting at AGM; escalation to divestment; collaborative engagement through industry initiatives	**Medium—Influence depends on shareholding size and collective action**
Sector-level engagement (no direct counter-party relationship)	Industry body participation; public policy engagement; market-wide standard setting	**Low to medium—Influence is systemic and long-term rather than counterparty-specific**
Cedant (reinsurance context)	Treaty terms and conditions; capacity pricing; transition requirements as conditions of cover; cedant portfolio expectations	**Medium to high—Depends on reinsurance dependency of cedant**
Intermediary or broker	Engagement guidelines communicated through placement process; market-wide signals via industry forums	**Low to medium—Indirect influence through market standards**
Public authority or regulator	Policy consultation responses; participation in industry working groups; public disclosure and advocacy	**Low—Influence is reputational and long term**

Figure 8: Engagement levers and expected level of influence

Why the principle is important

Aligning stewardship and underwriting is central to coordinated engagement. Underwriting discussions, focused on risk management, adaptation measures and resilience, can enrich stewardship conversations with investees. Equally, investment insights on transition credibility, governance and delivery can inform underwriting decisions at renewal, pricing review or when considering conditions and exceptions. While underwriting and investment actions may not always move at the same pace, coordinated engagement helps ensure that the underlying expectations remain consistent, justified and aligned with the insurer's transition ambition and risk appetite.

The required inputs

- Strategic Ambition and Portfolio Map
- Agreed mutually reinforcing actions—These will be the key drivers of specific engagement action
- Prioritized client lists
- Any portfolio-level scenario analysis to guide specific engagement topics and companies

The process to be followed

Effective coordinated engagement relies on practical internal processes. Underwriting, investment, risk and sustainability teams need regular mechanisms to share relevant insights on topics such as transition plans, physical risk trends and engagement outcomes (subject to appropriate legal and conduct controls). In practice, this often means agreeing a priority list of counterparties or sectors, defining common engagement themes, and setting clear escalation pathways so that decisions made in one part of the organization take account of implications for the other. The aim is not to create a separate engagement process, but to make existing engagement activity more coherent across the balance sheet.

A TBS approach to coordinated engagement may include a combined annual planning process to identify where joint effort is likely to have the greatest effect. For example, an insurer may compare the most material clients and investees across both sides of the balance sheet, identify a smaller set of shared priorities, and focus coordination there. This helps concentrate effort where combined influence is highest and where shared analysis can improve the quality and efficiency of decisions.

When coordinated engagement is applied in this way, insurers can harness their influence across the balance sheet to support sectoral transition, strengthen resilience and reduce long-term risk. By aligning expectations and sharing insights across underwriting and investment, coordinated engagement becomes a powerful driver of credible transition outcomes, both for counterparties and for the insurer's own long-term strategic objectives. Consideration may be applied as to whether key sectors need to be prioritized when completing this process.

It is important to note that there are no specific process steps associated with effective engagement, as the process is not expected to be any different to how it operates in business as usual. What is different is the coordinated engagement effort across the balance sheet, on actions where collectively the most impact can be achieved.

Information barriers, conduct risk and legal controls

Coordinated engagement should not be read as unrestricted information sharing or joint decision-making across business lines. Where the same counter-party is both an insured client and an investee, insurers should assess competition, market-abuse, confidentiality, conflicts-of-interest and customer-conduct risks before sharing client intelligence, pricing signals or escalation plans. In practice this may require legal or compliance review prior to coordinated escalation. The objective is to ensure that transition expectations are coherent while preserving independent underwriting, pricing, stewardship and investment decisions, and protecting confidential client information.

The expected outputs

- Agreed list of companies where collective cross-organizational engagement will be prioritized
- Agreed engagement objectives and topics
- Agreed escalation actions as an outcome of the engagement process

Who should be involved?

- Sustainability team—Lead the activity from a coordination perspective and design the engagement framework and triggers, coordinate feedback loops and monitor progress
- Distribution teams—Lead client engagement
- Investment stewardship/responsible investment teams—Lead investee engagement
- Underwriting teams who are involved in engagement activity
- Risk and Capital teams—Support with creating frameworks and setting risk appetite
- Legal and Compliance—Particularly around information barriers
- Executive Committee acts as a point of escalation
- Other teams regularly involved in engagement activity, such as procurement, and claims

Case study: Principle 3—Coordinated Engagement

Cooperative oriented insurer emphasizing collaboration beyond the firm
One insurance group emphasized coordinated engagement both internally and externally as a core transition lever. Internally, underwriting and investment teams exchange information on high priority sectors and counterparties to inform engagement strategies.

Externally, the organization plays an active role in peer collaboration, contributing to the development of shared methodologies and industry frameworks where data gaps or methodological uncertainty limit individual action. Rather than relying solely on proprietary tools, the organization sees collective action as essential to credibility and scalability.

This collaborative orientation is echoed in public disclosures, which emphasize participation in industry initiatives and partnerships as a means of advancing transition progress across the wider system.

This makes the case relevant for peers seeking to move beyond isolated engagement activities. The broader lesson is that coordinated engagement becomes more credible when internal functions are aligned first, and when external collaboration is used to address data gaps, methodological uncertainty and system-level barriers that no single firm can solve alone.

Additional considerations

The insurer-type considerations below should help firms adapt the engagement model to direct insurance, reinsurance, life and health, and developing-market contexts.

Type of insurer	Considerations
Life insurer	▪ Direct underwriting engagement with corporate clients is limited; the primary engagement lever is investment stewardship. Cognitive consonance requires that the objectives used to guide stewardship voting and engagement (e.g. net-zero alignment expectations for investees) are consistent with the transition expectations applied at the group level for any corporate group insurance business, so that the organization does not send contradictory messages through different channels ▪ For group pension or protection business, engagement with employer clients on their own transition planning can be a meaningful lever. For example, a combined annual planning process covering the top 20 clients and top 20 investees—for life insurers, the employer client and the investee may be the same entity, making coordinated engagement particularly high value
Health insurer	▪ The engagement framework should apply consistent climate and social expectations whether the engagement is with an investee company (through stewardship) or with an employer client (through group health product discussions). Using the same engagement framework and the same escalation logic across both is the practical expression of cognitive consonance for health insurers ▪ Engagement with public health authorities and policymakers should be coherent with investment stewardship positions. If the insurer is engaging policymakers on climate-health linkages, investment stewardship activity should be reinforcing that position rather than voting against climate-related resolutions at investee company AGMs
Non-life insurer	▪ Where the same corporate client is both insured and invested in, the underwriting renewal conversation and the stewardship engagement should be explicitly aligned—the same transition expectations, the same escalation timeline, and the same consequences if progress is insufficient—select, for example, the top 10-20 firms for this coordinated action to create maximum leverage ▪ Where underwriting and investment teams are engaging the same counter-party independently, cognitive consonance requires that they have agreed the message in advance. Engagement expectations should be "consistent, justified and aligned with the insurer's transition ambition"—inconsistent messages from different parts of the same organization undermine both credibility and influence ▪ Escalation logic must be coherent across both sides. For example, if the underwriting team has agreed that failure to produce a credible transition plan by year three triggers a coverage condition, the investment team should be applying an equivalent escalation at the same point. Different escalation timelines for the same counter-party represent a structural incoherence the governance framework should address

Type of insurer	Considerations
Reinsurer	▪ The primary engagement lever is cedant-facing, not policyholder-facing. Cognitive consonance requires that the transition expectations communicated to cedants through treaty or facultative terms and pricing are consistent with the expectations applied to investees through stewardship. If the reinsurer accepts cedant books with no transition requirements while simultaneously engaging investees on net-zero alignment, the two positions are incoherent ▪ Influence is indirect through support to primary insurers and role in shaping market-wide standards. Engagement in industry bodies and standard-setting forums should therefore be coordinated with direct cedant engagement, so that the standards the reinsurer advocates for publicly are those it is actually applying in its treaty or facultative negotiations
Insurer in developing markets	▪ Prioritization at community-level resilience and collaboration with local authorities may be most appropriate. Cognitive consonance requires that investment stewardship activity reinforces rather than contradicts this community resilience focus. For example, voting against climate-related resolutions at investee companies while simultaneously engaging local communities on climate adaptation would represent an incoherence that should be surfaced and resolved ▪ Collective engagement through local insurance associations can extend influence beyond what individual companies can achieve. The underlying engagement objectives and escalation logic used in collective industry engagement should be consistent with those used in individual stewardship and client engagement—a unified position across both channels is more credible and more effective
Small and mid-sized insurers in advanced markets	▪ Smaller insurers are unlikely to have separate underwriting stewardship and investment stewardship functions, which can be an advantage: the same individual or team often manages both relationships, making coordinated engagement easier to achieve in practice. This proximity should be used deliberately. For example, a shared priority list of the top five to ten counterparties where the insurer both underwrites and holds investment exposure is a proportionate and credible starting point ▪ Where client bases do not overlap, the coherence requirement shifts to ensuring that sector-level transition expectations are consistent across both sides—the same message to the same industry, regardless of which function is delivering it. Legal and conduct controls still apply regardless of firm size. Coordinated engagement does not mean sharing commercially-sensitive pricing or underwriting information, even in a smaller organization where information barriers may feel less formal.

5. Principle 4: Coherent and Holistic Measurement of Progress

What the principle means

Coherent and holistic measurement allows insurers to understand whether their transition strategy is progressing as intended across both underwriting and investment portfolios. The goal is not to impose identical metrics across activities that operate under different constraints, but to establish a measurement framework that provides a consistent view of how actions across the balance sheet support the insurer's transition ambition and risk appetite. These metrics may be additive to what is already in place and could combine physical-risk indicators, transition-risk metrics, nature-related measures, just transition and social metrics, as well as financial risk assessments and forward-looking analysis.

Why the principle is important

It offers leadership a rounded picture of where progress is occurring, where risks are emerging and where strategic adjustments are required in order to align to the true transition ambition. It allows the Board and Exco to track progress against the objectives set as part of the transition ambition. It enables underwriting and investment teams to understand the impact that their engagement strategy is having in the real world as well as within the business in terms of balance sheet impact. Finally, it enables stakeholders (including shareholders and beneficiaries) to understand how the company is performing against the transition ambition.

The required inputs

- Strategic Ambition
- Portfolio Map
- Theory of Change
- Engagement Objectives

The process to be followed

Step 1: Identify the critical metrics

The first consideration in selecting metrics is ensuring that they reflect real-economy conditions, traditional emissions-based indicators may offer useful signals but cannot fully capture on the ground changes in vulnerability or resilience. Real-economy metrics such as hazard intensity, exposure to climate-sensitive geographies, evidence of physical-risk reduction undertaken by clients or investees, and proof of adaptation measures can provide a clearer sense of whether the insurer's actions are translating into meaningful resilience improvements. These indicators can help insurers determine

whether changes in underwriting conditions, engagement or capital allocation are encouraging reduced vulnerability and long-term risk reduction.

A balanced set of indicators are required. Traditional emissions-based metrics remain important, but they should be complemented by indicators for physical risk, resilience, insurability, product and portfolio change, stewardship outcomes, affordability, just transition and, where material, nature-related dependencies and impacts. It is important to ensure targets are realistic yet stretching and balance short- and long-term incentives. The Strategic Asset Allocation (SAA) teams should also be central participants in resilience and solvency planning, noting friction between transition objectives and other business imperatives (growth, turnover, insurability).

Case study: Principle 4—Coherent and Holistic Measurement of Progress

Large insurer with mature metrics and assured reporting
A large insurer described a relatively advanced approach to measuring and monitoring transition progress across its balance sheet. Progress is tracked using a combination of targets, key performance indicators and qualitative milestones, with methodologies aligned to recognized external standards wherever possible.

Interviewees stressed that metrics are selected not only for disclosure purposes but to support internal steering and decision making. Measurement approaches are reviewed regularly to reflect methodological advances and regulatory developments.

Publicly available reporting indicates that sustainability and transition disclosures are integrated into formal reporting processes and, in some cases, subject to external assurance, reinforcing confidence in the robustness and consistency of reported progress.

Insured emissions and financed emissions should be treated as complementary inputs to the TBS measurement framework, not as alternatives. For composite insurers, insurance-associated emissions from underwriting portfolios may be as strategically significant as financed emissions from investment portfolios. A credible balanced scorecard should therefore show both sides of the balance sheet, explain their different attribution bases and decision-use cases, and link each to the relevant management levers: underwriting appetite, coverage conditions and client engagement for insured emissions; strategic asset allocation, stewardship and capital allocation for financed emissions.

No metrics should be interpreted in isolation. Both should be considered alongside transition readiness, engagement outcomes, physical risk exposure, adaptation and resilience indicators, affordability and availability measures, and financial resilience metrics.

Where the same counter-party appears in both underwriting and investment portfolios, insurers should not simply add insured emissions and financed emissions together as though they were independent exposures. A practical approach is to report each metric gross for accountability and comparability, maintain a matched-counterparty overlap register, and present a de-duplicated management view for internal steering where aggregation would otherwise overstate exposure. The chosen approach should be documented, applied consistently, and accompanied by a clear explanation of attribution, data quality and limitations.

Insured and financed emissions are important, particularly for emissions-intensive sectors, but they should not be the only metric. A TBS framework should also be capable of capturing whether the

insurer is supporting credible transition, resilience and real-economy outcomes across both sides of the balance sheet.

Positioning insured and financed emissions in the balanced scorecard

The balanced scorecard should include a clear carbon-accounting layer that distinguishes underwriting and investment exposures while allowing the Board and Exco to understand aggregate direction of travel.

Measurement layer	Purpose	Example indicators
Underwriting emissions	Measures emissions associated with insurance portfolios and supports underwriting portfolio steering	Insurance-associated emissions by line of business, sector and geography; premium or limit-weighted emissions intensity; share of insured emissions covered by credible client transition plans
Investment emissions	Measures emissions associated with investment portfolios and supports capital allocation and stewardship	Financed emissions; weighted average carbon intensity; portfolio alignment; share of AUM in transition or resilience solutions
Cross-balance-sheet overlap	Identifies counterparties that appear on both sides of the balance sheet and prevents double counting in management reporting	Matched counter-party register; overlap exposure flag; gross underwriting emissions, gross financed emissions and de-duplicated management view
Transition readiness and engagement	Tests whether emissions trends reflect real-economy progress or only portfolio churn	Credibility of transition plans; engagement milestones; escalation stage; capex alignment; adaptation measures
Risk and resilience	Links emissions metrics to physical risk, capital and solvency outcomes.	Stress-test impacts; total and proportional uninsured losses; real, normalized claim payments ; capital sensitivity

Figure 9: Minimum carbon accounting balanced scorecard

Step 2: Undertake forward-looking analysis

Forward-looking analysis is critical to assessing long-term resilience. Scenario analysis enables insurers to explore how climate, nature and societal conditions could evolve under different pathways, and to examine how exposures across underwriting and investment portfolios may respond. A coherent approach does not require identical models or a single data source across the balance sheet; it requires consistent principles, documented assumptions and governance so that outputs

from different functions can be interpreted together. Scenario insights help insurers identify where transition or physical risks may intensify, where solvency pressures may emerge, and where strategic adjustments are necessary to maintain long-term viability.

Before undertaking forward-looking analysis, the organization should define the:

- **Use case the analysis is intended to serve:** For example, risk identification, solvency assessment or tracking progress against net-zero objectives
- **Time horizon it will cover:** Short-term horizons (one to three years) are most relevant for pricing and near-term capital planning; medium-term (three to ten years) for portfolio steering and engagement; long-term (ten years and beyond) for Strategic Ambition and solvency resilience

Where multiple use cases or horizons are in scope, outputs should be designed to be integrated rather than treated as separate exercises. This is particularly important for maintaining cognitive consonance across underwriting and investment functions. For detailed guidance on short-term scenario design, refer to the CFRF Resilience Working Group: Short-Term Scenarios chapter[10].

Step 3: Design the framework

Designing the framework requires bringing together the insurer's ambition, critical metrics, and forward-looking analysis into a coherent structure that can be applied consistently across underwriting and investment activities. This involves agreeing which indicators will be monitored and how trade-offs across the balance sheet will be interpreted. The framework should articulate how physical-risk, transition-risk, nature-related and social indicators complement one another, and how short-term movements, such as temporary increases in emissions or risk exposure, will be understood in the context of long-term strategic direction. The assessment should include a data quality assessment. PCAF[11] can provide a useful framework to ensuring data is neutral, accurate, and verifiable.

Step 4: Assess data availability

The framework must also address uncertainty and data availability explicitly. Data gaps persist across emissions reporting, nature-related dependencies, physical-risk modelling and transition-plan assessments, particularly for small and medium-sized counterparties. Complex insurers will often need to rely on multiple internal and external data sources across underwriting, investments, actuarial and risk functions rather than a single dataset. Total Balance Sheet coherence is therefore achieved in practice through clear governance over those sources: common definitions where possible, documented assumptions and limitations, transparent mapping between datasets, and controls that allow results to be interpreted consistently across the balance sheet. This is often more realistic than seeking one fully unified data source, provided the organization can explain how different inputs are reconciled and used in decision-making.

Step 5: Balance short-term and long-term metrics

A further dimension of coherent measurement is recognizing that certain indicators may deteriorate in the short term as a consequence of strategic choices that strengthen long-term resilience. Supporting a managed phase-out of high-emitting assets, maintaining underwriting exposure in transition-critical sectors or investing in adaptation-related activities may temporarily increase measured emissions or

10 Resilience Working Group: Short-Term Scenarios Chapter
11 carbonaccountingfinancials.com/standard

risk exposure. A holistic framework acknowledges these dynamics and avoids misinterpretation of short-term fluctuations by focusing on long-term strategic direction.

When taken together, a coherent and holistic set of metrics enables insurers to understand how transition, physical and nature-related risks evolve across the balance sheet. By combining near-term indicators with forward-looking analysis, grounding the framework in real-economy signals and maintaining transparency about uncertainty, insurers can form a credible view of progress and make informed decisions that support their long-term transition and resilience ambitions. These metrics are a critical input into Principle 5—Unified Oversight and Incentives.

The expected outputs

- A coherent measurement framework that integrates underwriting and investment metrics, including a balanced set of indicators aligning to the scope of the ambition
- Clear documentation of methodologies applied, data and lineage, key assumptions, proxies and data limitations

Who should be involved?

- Sustainability team
- IT team—Data and technology teams
- Finance team—In the provision of data
- Underwriting and investment teams to agree metrics to be embedded into performance
- External partners (e.g. data partners)

Additional considerations

The insurer-type considerations below should help firms tailor metrics to different business models while maintaining enough common structure for enterprise-level interpretation.

Type of insurer	Considerations
Life insurer	▪ The primary cognitive coherence challenge for life insurers is that underwriting metrics (mortality, morbidity, longevity trends) and investment metrics (financed emissions, portfolio alignment) speak different languages. A coherent framework requires a bridging layer—shared climate scenario assumptions—that both actuarial and investment teams use to translate their respective indicators into a common view of balance sheet risk ▪ Using one external climate dataset mapped consistently across actuarial modelling and investment analysis delivers cognitive consonance and avoids contradictory conclusions emerging from different data sources within the same organization ▪ A practical starting point for cognitive coherence is to identify the climate scenarios used in ORSA (Own Risk and Solvency Assessment) and ensure these are identical to those used in investment portfolio stress testing—misaligned scenario assumptions are a common source of incoherence in life insurer measurement frameworks ▪ Short-term metric movements require common interpretive principles: a temporary increase in investment portfolio emissions may be consistent with long-term transition progress if it reflects maintained exposure to transition-critical sectors; the same logic applies to underwriting decisions on climate-sensitive sectors
Health insurer	▪ The cognitive coherence challenge is that health underwriting metrics (claims trends, population health indicators) are not naturally expressed in the same units as investment metrics (emissions, portfolio alignment scores). A coherent framework uses climate scenario outputs—particularly chronic physical risk pathways—as the common interpretive layer that connects health claims projections to investment portfolio resilience ▪ Social metrics (access, affordability, health equity) should be applied consistently to both underwriting decisions (product design, pricing, exclusions) and investment decisions (stewardship objectives, asset allocation)—using the same definitions and measurement boundaries on both sides delivers the common interpretive language described in Step 3 of this document

Type of insurer	Considerations
Non-life insurer	▪ Non-life insurers face a specific cognitive coherence tension: the Combined Operating Ratio (CoR) is a natural metric for underwriting but has no direct equivalent on the investment side. A coherent framework explicitly maps CoR sensitivity under climate scenarios to investment portfolio value-at-risk under the same scenarios, allowing leadership to read both as components of a single balance sheet stress picture ▪ Physical risk metrics (hazard intensity, geographic concentration, exposure to climate-sensitive regions) should be constructed using identical geographic boundaries and climate datasets across underwriting exposure analysis and investment asset allocation—a single external data source mapped to cross-business use cases is the most effective way to achieve this ▪ Transition readiness indicators for clients and investees should use the same assessment methodology whether the counter-party appears in the underwriting portfolio or the investment portfolio—a single counter-party transition plan quality score applied consistently across both sides is a practical expression of cognitive consonance at the metric level ▪ Maintaining underwriting exposure in transition-critical sectors may see short-term physical risk metrics deteriorate; the measurement framework should include agreed interpretive principles so this is read as consistent with long-term strategy rather than as a governance failure
Reinsurer	▪ Cognitive coherence for reinsurers requires bridging treaty-level underwriting metrics (probable maximum loss, aggregate exposure by peril and geography) with investment portfolio metrics (financed emissions, portfolio alignment)—the common interpretive layer is climate scenario analysis applied consistently at both levels ▪ A particular coherence challenge arises because reinsurers' underwriting exposures are defined at the cedant portfolio level while investment exposures are defined at the asset level. A coherent framework maps both to the same underlying sectors and geographies so that the portfolio map (Principle 2) and the measurement framework (Principle 4) speak the same language ▪ Engagement metrics with cedants (e.g. proportion of treaty book covered by cedants with credible transition plans) should be designed to be directly comparable with investment stewardship metrics (e.g. proportion of AUM in companies with credible transition plans)

Type of insurer	Considerations
Insurer in developing markets	▪ The cognitive coherence challenge in developing markets is often acute because underwriting data quality and investment data quality are asymmetric—investment portfolios may have better ESG data coverage than underwriting portfolios where small and medium-sized counterparties dominate. A coherent framework uses consistent proxy approaches on both sides rather than applying rigorous data on one side and rough estimates on the other ▪ Protection gap metrics and insurance penetration rates should be framed consistently as both an underwriting consideration (affordability and availability of cover) and an investment consideration (investing in climate-resilient infrastructure that reduces the protection gap)—applying the same metric on both sides of the balance sheet is a direct expression of cognitive consonance ▪ Using one external data source mapped across business functions is the most cost-effective and coherent approach; for insurers in developing markets this may mean prioritising NGFS scenario data or IAIS supervisory scenario tools that are available without significant data procurement costs
Small and mid-sized insurers in advanced markets	▪ The measurement framework should focus first on the few metrics most likely to influence decisions: material insured emissions or sector exposure, financed emissions where investment portfolios are material, transition readiness of priority counterparties, physical-risk exposure and financial resilience indicators. Use proxies transparently, document data limitations and phase in more granular metrics as systems and resources mature.

Suggested balanced scorecard for TBS implementation

The measurement framework should distinguish between disclosure metrics and internal management metrics. Some indicators may be suitable for external reporting; others may be more appropriate for internal steering because of confidentiality, data limitations, legal sensitivities or methodology uncertainty. The balanced scorecard below illustrates the categories that should be considered.

Category	Example metrics
Transition alignment	Share of priority clients, cedants or investees with credible transition plans; sector alignment; transition readiness scores.
Carbon accounting	Insured emissions; financed emissions; data quality score; overlap-adjusted management view where the same counter-party appears on both sides of the balance sheet.
Physical risk and resilience	Exposure to high-risk geographies; adaptation measures implemented; risk engineering uptake; expected loss change under climate scenarios.
Product and portfolio action	Premium or capacity supporting transition-enabling solutions; investment in transition or adaptation assets; resilience product pipeline.
Engagement outcomes	Engagements completed; milestones achieved; escalation actions; stewardship voting outcomes; cedant or broker engagement outcomes.
Affordability and availability	Coverage availability in vulnerable regions; affordability indicators; protection-gap indicators; vulnerable customer impacts.
Financial resilience	Solvency impact under scenarios; capital strain; claims inflation; reinsurance cost; liquidity and ALM impacts.
Governance and delivery	Board reviews; policy exceptions; divergence register items closed; incentive linkage; internal assurance findings.

6. Principle 5: Unified Oversight and Incentives

What the principle means

Unified oversight ensures that a TBS transition plan is governed, implemented and monitored consistently across the organization. Principle 5 focuses on governance structures that support a whole-of-business view, embedding transition considerations into day-to-day operations and aligning incentives with long-term objectives. Together, these elements reinforce cognitive consonance and help keep underwriting and investment decisions coordinated and strategically coherent.

Why the principle matters

Effective Board and Exco oversight improves decision quality by surfacing trade-offs early, challenging inconsistencies and directing corrective action where needed. This provides stakeholders with a clearer and more credible understanding of how the insurer is managing transition. Stronger oversight and clearer communication also increase the insurer's ability to influence real-world outcomes through underwriting, investment, engagement and incentives.

The required inputs

- A clearly defined Strategic Ambition and risk appetite
- Management level accountability and governance arrangements
- Training materials on climate, nature and social risks
- Remuneration and incentive governance framework

The process to be followed

Step 1: Establish integrated governance

Integrated governance starts with clear accountability at the top of the organization. Approval of the TBS transition plan should sit with the board or equivalent body, making it clear that transition is a strategic issue rather than a specialist sustainability exercise. Oversight should be proportionate to the insurer's size, complexity and existing governance model: some firms may use a dedicated sustainability committee, while others may assign responsibility to an existing risk, audit or executive committee that is already managing the relevant risks. A cross-functional management forum, bringing together underwriting, investments, risk, finance, actuarial and sustainability can support this oversight by providing a joined-up view of exposures, opportunities and trade-offs across the balance sheet.

Boards and executive committees should have explicit authority to challenge divergences, approve trade-offs and require action where underwriting and investment are moving out of alignment—with metrics agreed as part of Principle 4.

The oversight body should receive regular reporting that highlights inconsistencies between underwriting and investment decisions, explains their implications for the transition ambition and risk appetite, and sets out when escalation is required. This helps ensure that differences are governed consciously rather than left as unmanaged consequences of functional silos.

The oversight body should be supported by a management structure that brings together underwriting, investment, risk, finance, sustainability and other relevant functions. Its role is not to replace business ownership, but to ensure coherence, document key decisions and manage escalation.

Step 2: Embed into day-to-day operations

Embedding the TBS approach into day-to-day operations means reflecting it in planning, underwriting guidelines, pricing tools, investment due diligence, reinsurance decisions and risk management. This is what turns oversight into action. It also makes the insurer's approach easier for internal and external stakeholders to understand, because governance is visibly connected to real business decisions rather than sitting apart from them.

Training is also important. Teams across underwriting, investment, risk, actuarial, finance and distribution need a shared understanding of climate, nature and social risks and how these affect their decisions. Boards and senior leaders need enough capability to challenge assumptions, scenarios and methodologies. A common internal language improves coordination, supports clearer external communication and helps stakeholders understand the insurer's approach more easily.

Step 3: Monitor and review progress

Monitoring progress requires regular assessment of whether actions are delivering the intended effect and whether underlying assumptions still hold. This includes tracking changes in underwriting and investment exposures, shifts in client and investee transition readiness, and developments in regulation, markets and scientific evidence. Regular review gives boards and management a clearer basis for challenge and helps the organization explain progress, setbacks and course corrections to stakeholders.

Review cycles should align with regulatory reporting timelines so internal and external disclosures remain consistent. A disciplined review process also helps identify emerging risks and tensions, such as affordability pressures, sector-specific challenges or new transition bottlenecks, and supports timely recalibration.

Step 4: Disclose and communicate externally

Clear and consistent disclosure strengthens trust by helping external audiences understand the rationale for strategic decisions and the logic connecting governance, action and outcomes. Disclosures should align with major sustainability and prudential frameworks, including IFRS S1 and S2, the TPT Disclosure Framework, and relevant jurisdiction-specific requirements. They should explain how trade-offs are handled, how proportionality is applied, and how uncertainties or data gaps are managed.

External communication should focus on forward-looking actions, near-term levers and key decision points rather than broad descriptions of past activity. It should distinguish clearly between actions taken by the insurer and outcomes in the real economy, while still showing how stronger governance, underwriting, investment and engagement are intended to influence those outcomes over time.

Step 5: Agree incentives

Incentives support the transition strategy when they reinforce the behaviours and decisions needed to deliver it. Because remuneration structures differ across the industry, incentive design should remain principles-based rather than prescriptive. In practice, this means linking incentives to delivery of transition actions, quality of implementation, progress against key milestones and the integrity of risk management and governance. Well-designed incentives strengthen accountability and make it more likely that oversight translates into credible action and real-world influence.

Disclosure of incentive approaches may refer to the organization's broader remuneration framework rather than specific metric weightings or financial linkages, although some firms may choose to disclose more. The aim is to support alignment without constraining flexibility or creating unintended consequences. Effective incentives reinforce accountability, support consistent implementation and strengthen the credibility of the insurer's transition commitments.

The expected outputs

- A clear governance mandate that assigns Board-level oversight for the integrated transition plan across underwriting and investments
- Integrated incentive mechanisms
- A structured escalation process for managing misalignments or trade-offs between underwriting and investment decisions
- A capability-building plan outlining training requirements

Case study: Principle 5—Unified Oversight, Governance and Incentives

Mutual insurer with centralized executive oversight

A mutual insurance organization described how oversight of transition planning is centralized through a senior executive committee that spans underwriting, investments and operations. The transition plan is treated as an enterprise wide strategic input rather than a specialist sustainability artefact.

This committee is responsible for resolving tensions between business objectives, setting priorities and monitoring progress, with escalation routes to Board level governance where needed. The organization also highlighted the role of incentives in reinforcing accountability, with climate related objectives incorporated into senior management performance frameworks.

Public disclosures reinforce this structure, outlining central governance arrangements and the role of senior leadership in overseeing climate related risks and opportunities.

Who should be involved?

- Board and Executive Committee
- Sustainability team
- Finance or data team
- HR team
- Disclosure team

Additional considerations

The insurer-type considerations below should help firms adapt governance and incentive design to differences in business model, decision horizon and regulatory context. Oversight should remain proportionate: firms may use existing committees and management forums where these already provide effective challenge, escalation and accountability across the balance sheet.

Type of insurer	Considerations
Life insurer	▪ The governance structure must include actuarial representation alongside sustainability and investment expertise. For life insurers, the long-duration liability view that actuaries hold is the essential counterbalance to investment-side transition metrics, and without it the oversight body cannot identify incoherence between the two sides ▪ Incentive structures should use the same climate scenarios for performance measurement across both functions: if the investment team's incentives are based on portfolio alignment progress under a 1.5°C scenario but the actuarial team's mortality assumptions use a higher warming pathway, the organization is incentivizing incoherent behaviours without realizing it ▪ Boards need sufficient capability to scrutinize scenarios, taxonomies, modelling assumptions and transition methodologies. For life insurers, this specifically includes the capability to understand how actuarial climate assumptions and investment climate assumptions interact. This is a training requirement that sits distinctly from generic climate literacy
Health insurer	▪ Governance should include a social risk committee or equivalent function with authority over both underwriting decisions affecting access/affordability and investment stewardship decisions affecting social outcomes. Without a single oversight body spanning both, social and just transition considerations will be applied inconsistently across the balance sheet ▪ Incentives should be linked to social outcomes (access, affordability, health equity) as well as climate metrics, and these incentives should apply to both underwriting and investment teams consistently. Different incentive structures for the two functions are a structural source of incoherence over time

Type of insurer	Considerations
Non-life insurer	▪ The governance structure must have a specific mechanism for resolving one of the most common forms of non-life incoherence: underwriting decisions to withdraw from climate-exposed markets conflicting with investment decisions to maintain or increase allocations to assets in those same markets. The document identifies this as a key governance function. Without an explicit cross-balance-sheet review process at the governance level, this conflict will remain invisible ▪ Governance review cycles must be aligned with the annual underwriting renewal timetable, not just with investment review cycles. If the governance committee meets quarterly but underwriting decisions are made daily at renewal, transition considerations will not influence those decisions. Embedding transition guidelines into underwriting systems and pricing tools (as the document describes in Step 2) is the operational expression of this governance requirement ▪ Demonstrate centralized executive oversight spanning underwriting, investments and operations. For non-life insurers with complex multi-line portfolios, a single committee with authority over both sides is the most direct route to cognitive consonance in governance
Reinsurer	▪ Governance should provide visibility not only over the reinsurer's own investment portfolio but over the aggregate transition trajectory of the cedant book. If the investment portfolio is aligned but the treaty or facultative book is systematically renewing with cedants whose portfolios are not transitioning, the overall TBS position is incoherent. ▪ Incentives for underwriting and treaty and facultative teams should incorporate cedant transition readiness metrics alongside financial performance. This directly reinforces the market-shaping influence the document identifies as the reinsurer's distinctive lever, and ensures that teams are rewarded for driving transition progress through the value chain rather than despite it
Insurer in developing markets	▪ Governance proportionality is important, but the document's core requirement—a cross-functional body with visibility over both underwriting and investment decisions—applies regardless of size. For smaller developing market insurers, a combined risk-and-sustainability committee with clear transition remit may be more achievable than separate bodies, and more effective at maintaining cognitive consonance ▪ Disclosure requirements may be less prescriptive in some developing market jurisdictions, but the internal governance logic of the document—consistent internal reporting across both sides of the balance sheet, with clear escalation routes—remains essential for credibility with international reinsurers, investors and rating agencies, who will increasingly assess TBS governance as part of their own due diligence

Type of insurer	Considerations
Small and mid-sized insurers in advanced markets	▪ It is unlikely that there is a dedicated cross-functional oversight body. A named senior individual with explicit responsibility for identifying and escalating cross-balance-sheet divergences is a proportionate and credible alternative. ▪ A single climate-linked objective in the performance review of the CEO and relevant function heads, tied to transition plan delivery rather than purely financial outcomes, can be sufficient to demonstrate that transition is a governance priority rather than a disclosure exercise

Spotlight: Nature—Insurer integrating nature into governance and materiality

One insurer described how nature related risks and opportunities have been incorporated into its materiality assessment and governance structures alongside climate. Responsibility for nature sits within existing sustainability and risk oversight frameworks rather than being treated as a separate topic.

Although measurement approaches are still developing, the organization has begun identifying priority areas where nature intersects with underwriting and investment portfolios. Interviewees emphasized governance readiness as a precursor to more sophisticated measurement.

Public disclosures reference biodiversity and nature considerations within broader sustainability reporting, signalling an intent to expand coverage as methodologies become available.

Illustrative governance: RACI

A RACI model can help firms convert the transition plan from a sustainability-led document into an enterprise governance framework. The exact allocation should reflect the insurer's governance model, but accountability for delivery should be explicit and subject to regular review.

Activity	Accountable	Responsible/key contributors
Approve strategic ambition and guardrails	Board	Exco, Strategy, Sustainability, Risk, Legal and Compliance
Maintain risk appetite and escalation thresholds	Board Risk Committee/CRO	Risk, Actuarial, Underwriting, Investments, Finance and Sustainability
Maintain portfolio map and divergence register	Exco or Transition Committee	Sustainability, Underwriting, Investments, Claims, Risk, Finance and Data teams
Implement underwriting and claims actions	CUO/Claims leadership	Underwriting, Product, Claims, Reinsurance, Distribution and Legal
Implement investment and stewardship actions	CIO/Investment Committee	Portfolio management, Stewardship, ALM, Risk and Legal
Prepare metrics, controls and disclosures	CFO/Disclosure owner	Finance, Sustainability, Risk, Data, Legal, Compliance and Internal Audit
Integrate ORSA, stress testing and capital planning	CRO/Actuarial function	Risk, Actuarial, Finance, Underwriting, Investments and Reinsurance
Review controls and assurance readiness	Audit Committee	Internal Audit, Risk, Compliance, Finance and Sustainability

7. Principle 6: Financial Resilience and Solvency

What the principle means

Financial resilience is a core pillar of the TBS approach, ensuring that transition planning informs, and is informed by how the insurer assesses solvency, capital needs and the resilience of the balance sheet as a whole.

Why the principle is important

This matters because transition and physical risks interact across underwriting liabilities, investment exposures, reinsurance, liquidity and capital buffers. A transition plan that is not connected to stress testing, scenario analysis, risk appetite and ORSA-style thinking is unlikely to influence core insurance decisions or command supervisory confidence.

NOTE: While this guidance references ORSA as shorthand for the Own Risk and Solvency Assessment process, insurers operating outside the EU should map these outputs to their equivalent frameworks.

The required inputs

- Strategic Ambition and risk appetite
- Balance sheet exposure data
- Climate datasets
- Client and investee information (e.g. transition plan credibility, adaptation measures)

The process to be followed

These processes will already exist within the organization, and will not be new. The critical process steps here will be the addition of TBS-aligned thinking. Steps 1 and 2 use complementary but distinct techniques: stress testing for near-term capital resilience, and scenario analysis for longer-term strategic planning. Both should be read alongside the Cognitive Consonance Operational Test in Section 1.2—a stressed balance sheet is precisely the moment when coherence across underwriting and investment is most at risk of breaking down, and the test provides the governance mechanism for surfacing and resolving those tensions.

Step 1: Stress testing (short to medium term)

The TBS approach is that there should be coherence across the balance sheet in the stress testing, and that these tests should be aligned (where appropriate).

Financial resilience analysis should begin with stress testing under plausible but adverse conditions over short- to medium-term time horizons. The defining characteristic of this analysis is that it must assess the whole balance sheet as an integrated system—not as a collection of separate exposures. Assets and liabilities should be stressed simultaneously and interdependently, with explicit attention

to how shocks transmit across underwriting, investment, reinsurance, liquidity and capital buffers at the same time. It is the interaction between these elements, and the net effect on solvency, that matters most.

To test true resilience, stress tests should be calibrated to the extreme ranges of climate-related outcomes rather than central or middle-of-the-road projections. The most material risks sit in the tail-end of the distribution, and it is at these extremes that whole balance sheet stress becomes most acute. A severe physical risk event, for example, can simultaneously drive claims inflation on the liability side, depress asset values in affected geographies, tighten reinsurance availability and constrain liquidity—compounding capital pressure across the entire balance sheet in ways that moderate scenarios will not reveal. Stress testing anchored to average outcomes will systematically understate this integrated exposure.

Geographic granularity is equally critical to an honest whole balance sheet assessment. Risks assessed at broad geographic levels—such as state or regional averages—can mask concentrated exposures that affect multiple parts of the balance sheet simultaneously. Flood risk along a specific river corridor, for instance, may be invisible when averaged across a wider area, yet that same corridor may represent a clustering of underwriting liabilities, property assets and infrastructure investments whose simultaneous impairment would have material solvency consequences. Insurers should seek the highest practical level of geographic resolution to ensure that localized concentrations are visible across both sides of the balance sheet and are reflected in capital planning.

Stress testing assumptions should also be treated as living inputs. The integrated balance sheet picture will shift as the climate trajectory evolves. Where global climate targets fail to be met over time, the outlook for physical and transition risk moves upward—affecting insurability, asset valuations, reinsurance pricing, and regulatory capital expectations in combination, not in isolation. Firms should establish a process for periodically reviewing and recalibrating stress-testing assumptions in light of observed climate outcomes, ensuring that the solvency position presented to the Board and supervisors reflects the interdependencies of the balance sheet as the risk environment develops.

These tests should be designed not only to quantify losses, but to identify where the interactions across the balance sheet would require the transition plan to adapt—and where management actions such as reinsurance purchasing, asset reallocation, or capital raising would need to be deployed as part of a coordinated whole balance sheet response.

Step 2: Scenario analysis (longer term)

Scenario analysis should be used to assess longer-term pathways and structural change, with the explicit purpose of understanding how the whole balance sheet evolves as an integrated system over time. Rather than examining underwriting and investment portfolios in isolation, the focus should be on how transition risk, physical risk, resilience investment, policy evolution and broader sustainability trends reshape assets and liabilities simultaneously—and what that means for the net solvency position over the long term.

Scenarios should be decision-oriented, and those decisions should be taken with the whole balance sheet in view. Scenario outputs should inform underwriting appetite, product design, reinsurance strategy, asset allocation, stewardship priorities, and capital planning in an integrated way—recognizing that a change in one part of the balance sheet will have consequences elsewhere. A shift in underwriting appetite, for example, has implications for asset allocation and reinsurance strategy; a change in investment policy affects the capital available to support liabilities. The most useful

scenario work is the work that surfaces these interdependencies and changes management action as a result. Where relevant, these integrated insights should also feed into ORSA narratives.

Scenario analysis can also explain metric behaviour that might otherwise be misread—and here the whole balance sheet perspective is particularly valuable. A metric viewed in isolation can appear contradictory or inconsistent with the transition plan, when in fact it reflects a deliberate and coherent balance sheet strategy. For example, exposure to a high-emitting sector may temporarily rise as part of a managed transition-support strategy, while on the asset side, investment in resilience infrastructure may depress short-term returns. Viewed across the whole balance sheet however, both positions may be improving longer-term solvency and insurability in ways that a narrow, single-metric reading would obscure.

The expected outputs

- An integrated whole balance sheet view of solvency vulnerabilities—Covering the interaction between underwriting liabilities, investment exposures, reinsurance, liquidity and capital buffers—Assessed under tail-risk calibrated stress scenarios rather than central projections
- Evidence-based adjustments to underwriting appetite and investment allocation.
- Forward-looking scenario insights—Assessed across the whole balance sheet as an integrated system, showing how climate and related sustainability risks may reshape the net solvency position, capital requirements, and management actions over the long term
- Insights which shape the overall business strategy and climate ambition.

Who should be involved?

- Board and Executive Committee
- Investment and underwriting teams
- SAA teams
- Actuarial and capital/treasury teams

Case study: Principle 6—Embedding transition planning into decision making

Specialist insurer adopting an iterative, decision focused approach
A specialist insurer provided a detailed example of how transition planning is being embedded into day to day decision making, despite acknowledged data and methodological constraints. The organization uses its transition plan to shape underwriting policies, investment decisions, and risk appetite discussions, rather than treating it as purely strategic.

Transition objectives are tracked through regular executive reporting cycles, and scenario analysis and stress testing are used to inform capital and risk discussions. The firm described this as a "learning by doing" process, with tools and metrics improving over time as data quality increases.

Public disclosures suggest that this iterative approach is explicitly recognized, with transparency about limitations and a clear focus on practical application rather than perfection.

This is particularly relevant for firms operating in fast-evolving markets where complete data is not yet available. The approach appears to rely on regular executive reporting, scenario analysis and stress testing to inform capital and risk discussions, while recognizing that methods will continue to evolve through a learning-by-doing process.

For peers, the key takeaway is that decision-useful transition planning does not require methodological perfection at the outset. What matters is whether the plan is influencing real choices—for example around underwriting, portfolio steering and capital resilience—and whether limitations are acknowledged openly as capabilities improve over time.

Additional considerations

The insurer-type considerations below should help firms tailor solvency and resilience analysis to differences in balance-sheet structure, liability profile, data availability, and supervisory context.

Type of insurer	Considerations
Life insurer	▪ Financial resilience analysis for life insurers should explicitly reflect long-duration asset-liability management. Scenario analysis should assess how climate pathways affect both liabilities and asset values over time, rather than treating them as separate considerations ▪ Interest-rate sensitivity should be considered alongside climate and transition shocks, as changes in discount rates, credit spreads and market values may materially affect solvency, matching positions and policyholder obligations ▪ A coherent approach does not require uniform modelling across the balance sheet, but it does require consistent principles so that ORSA-style analysis, actuarial assumptions and investment stress testing can be interpreted together

Type of insurer	Considerations
Health insurer	▪ Climate scenario analysis should include health system stress scenarios—pathways in which climate-driven health events simultaneously increase claims, reduce workforce productivity and strain healthcare infrastructure. These compound scenarios are more realistic than single-variable stress tests and reveal the interactions between underwriting liabilities and investment exposures that the document identifies as the core value of TBS stress testing ▪ Capital adequacy implications of health-climate scenarios should be discussed openly with supervisors, as the document notes that in some jurisdictions "prudential transition plans must be submitted directly to supervisors." Proactive engagement with the supervisor on health-climate scenario methodology positions the insurer ahead of regulatory expectations
Non-life insurer	▪ For non-life insurers, the most material resilience challenge is often rising physical climate risk and catastrophe exposure. Stress testing should therefore capture the interaction between worsening claims experience, accumulation risk, reinsurance availability and investment-side market stress ▪ Scenario analysis should examine how increasing catastrophe frequency and severity could affect underwriting profitability, liquidity, capital buffers and insurability, particularly where physical-risk concentrations are high ▪ A coherent TBS approach requires these underwriting stresses to be assessed alongside investment exposures in the same sectors and geographies, so that correlated balance-sheet vulnerabilities are visible to management and governance bodies
Reinsurer	▪ For reinsurers, financial resilience analysis should place particular emphasis on rising physical climate risk, catastrophe accumulation and cross-geography correlation. Stress testing should assess how large events or clusters of events could affect treaty and facultative exposures, retrocession protection and capital adequacy at the same time ▪ The analysis should also consider how climate-related repricing or withdrawal of reinsurance capacity may affect cedants and feed back into the reinsurer's own business model, market role and solvency position ▪ A coherent TBS approach therefore needs to connect catastrophe and cedant-portfolio stress with investment exposures in the same regions or sectors, rather than modelling these as separate risks

Type of insurer	Considerations
Insurer in developing markets	▪ For insurers operating primarily in emerging markets, affordability constraints, protection gaps and data limitations may significantly shape solvency analysis and transition pathways. Scenario work should therefore test not only direct climate and transition shocks, but also the effect of reduced affordability, lower insurance penetration and limited adaptation capacity on the resilience of the business model ▪ Simplified or proxy-based analysis may be necessary at first, but it should still be applied consistently across underwriting and investment exposures so that management can form a credible whole-balance-sheet view ▪ Where social resilience, sovereign risk, public-sector capacity or access to essential insurance are material, these should be treated as part of the solvency and transition assessment rather than as separate contextual issues
Small and mid-sized insurers in advanced markets	▪ Financial resilience analysis should be proportionate but forward-looking. Smaller insurers can use regulatory stress tests, reinsurer or broker analytics, external scenarios and simple sensitivity analysis before building bespoke models. The priority is to understand concentration, reinsurance dependency, liquidity, delegated authority exposure and capital sensitivity under plausible climate and transition pathways

Strengthened approach to scenario analysis, stress testing and management actions

The TBS transition plan should inform, and be informed by, the ORSA or equivalent enterprise risk and solvency assessment. Scenario analysis, stress testing and sensitivity testing should be treated as related but distinct tools. Scenario analysis explores longer-term strategic pathways; stress testing assesses severe but plausible financial impacts; sensitivity testing isolates assumptions such as catastrophe frequency, claims inflation, carbon price, credit spreads, lapse, mortality, morbidity, reinsurance cost, asset impairment, or liquidity strain.

The analysis should explicitly identify transmission channels between underwriting and investments. Examples include physical climate risk increasing claims and reducing property values; insurance withdrawal affecting asset values in exposed regions; transition policy affecting corporate credit quality and insured business interruption risk; litigation and liability trends affecting both underwriting and investee valuations; and reinsurance pricing feeding back into affordability, availability and capital requirements.

For each material scenario, firms should identify credible management actions, including underwriting appetite changes, reinsurance purchase changes, claims management interventions, capital buffer adjustments, strategic asset allocation changes, product redesign, policyholder communications, engagement escalation and public-private partnership options. The output should feed back into risk appetite, business planning, financial planning and board-level review.

Financial resilience dashboard area	Illustrative metrics
Solvency and capital	Solvency ratio impact; capital requirement impact; capital buffer usage; management action capacity
Underwriting resilience	Expected loss change; catastrophe PML movement; claims inflation; combined operating ratio impact; reinsurance cost and availability
Investment resilience	Credit spread impact; asset impairment; stranded asset risk; liquidity stress; ALM mismatch
Business model resilience	New business strain; product viability; affordability and availability impacts; resilience investment opportunity

8. Addressing common implementation challenges

Implementing a TBS approach inevitably presents practical challenges which arise from overlapping regulatory expectations, persistent data gaps, the complex trade-offs between prudential and societal objectives, and the operational realities of insurance business cycles. This section addresses how insurers can approach these issues with clarity and proportionality so that their transition plans remain credible, internally coherent and feasible to implement. These challenges are not a reason to delay implementation—they are the reason implementation needs disciplined governance, proportionate tools, and clear documentation.

8.1 Proliferation of transition-planning requirements and guidance

Insurers increasingly face multiple sustainability and prudential expectations, including disclosure requirements, transition-plan regulations and supervisory expectations on climate, nature and resilience. Without a unifying internal structure, these overlapping demands risk creating fragmented processes, duplicated work or inconsistent messages across the organization. Establishing an internal framework that maps how different requirements interact, and clarifies ownership for each component of the transition plan, helps ensure alignment and supports efficient reporting. Such an approach also strengthens credibility by ensuring that internal and external messages are consistent and grounded in the insurer's risk appetite and transition ambition.

A practical response is to use the TBS transition plan as the central organizing document and then map external requirements to it, rather than creating separate parallel processes for each framework.

8.2 Data availability and methodological gaps

Data and methodological gaps remain one of the most significant challenges. Many clients and investees lack mature emissions disclosures: physical-risk modelling varies in quality across hazards and geographies, and nature-related data and methods are still evolving. Insurers often need to rely on proxies, estimation hierarchies and external datasets to inform their decisions. These tools can be effective when applied transparently and proportionately. Making uncertainties explicit, explaining assumptions and prioritizing data-quality improvements in the most material areas allow insurers to maintain credibility while acknowledging limitations.

Firms should adopt a minimum viable approach where necessary: use the best available data, document limitations, improve coverage over time, and avoid waiting for perfect data before building a usable balance-sheet view.

8.3 Managing trade-offs and short-term impacts

Maintain a Trade-off Register to document key tensions. For example, risk-based pricing versus affordability, exit versus engagement, emissions reduction versus resilience, or short-term profitability versus long-term balance-sheet impacts. Additionally, document the chosen course of action, together with the rationale, owner, review cycle and the governance body that approved it (template in the Implementation Toolkit).

Transition planning requires insurers to balance prudential soundness, competitiveness and broader societal objectives, and this balance inevitably creates difficult trade-offs. Risk-based pricing may more accurately reflect rising physical risks, yet it can also challenge affordability and drive customers toward underinsurance, weakening overall resilience. Conversely, reluctance to adjust pricing or appetite for competitive reasons may expose the insurer to heightened loss volatility or mis-priced transition risk. Navigating these tensions requires careful judgement, grounded in the insurer's risk appetite and Strategic Ambition. The task is not to eliminate trade-offs, but to make them visible, governable and consistent with the stated ambition and guardrails.

Exposure decisions present similar dilemmas. Reducing underwriting or investment exposure to high-emitting sectors can make the balance sheet appear more aligned in the short term, but doing so abruptly may undermine real-economy transition progress if those activities lack viable alternatives or require long-term engagement to decarbonize. Maintaining exposure without clear expectations, however, can weaken the credibility of the insurer's transition plan. Fair assessment of counterparties therefore depends on understanding national transition trajectories, recognizing the differing pace and feasibility of change across markets and evaluating the credibility and maturity of individual companies' transition plans.

These decisions also have distributional effects. Just transition considerations matter, particularly where affordability pressures could disproportionately affect vulnerable customers, for example, owners of homes in flood risk areas where insurance is withdrawn. Similarly, some adaptation measures, such as retrofitting properties for climate resilience, may be prohibitively expensive for lower-income households or small businesses. In these contexts, coordinated engagement with governments and regulators can help shape policies, incentives or public-private mechanisms that support resilience without compromising access to essential insurance cover.

Nature and biodiversity risks also need to be embedded into trade-off considerations. As methodologies aligned with initiatives such as TNFD and emerging social-related frameworks develop, insurers will need to reflect ecosystem dependencies, land-use pressures and social inequalities in their assessment of transition options. These risks may intersect with affordability questions, as communities facing both ecological and economic vulnerability may require carefully sequenced adjustments to insurance availability or conditions.

Legal, liability and litigation risks further complicate trade-offs. Boards are increasingly concerned about both over-ambitious plans that may be difficult to deliver and under-ambitious strategies that could expose the insurer to allegations of inaction or misleading claims. Growing scrutiny around greenwashing has, in some cases, contributed to "green-hushing," where organizations under-report sustainability activities to avoid legal or reputational risk. Strong governance processes are therefore essential to surface dilemmas early, test their implications, and document the rationale for decisions.

Legal, liability and litigation considerations should be embedded into trade-off decisions and external communication. In practice this means reviewing whether the plan overstates certainty, creates misleading impressions of alignment, or implies commitments that business decisions and governance cannot support.

Illustrative case study: Electric vehicle affordability across markets

An insurer may wish to support transport transition while also responding to higher repair costs, battery-related claims uncertainty, and affordability pressures. A TBS approach would require underwriting, claims, investment and customer teams to assess the issue together. For example, combining pricing responses with claims partnerships, repair-network investment, resilience measures and a clear customer communication strategy.

8.4 Short-term budgets versus long-term planning

Insurance operations often operate on short cycles—annual budgets, one-year underwriting periods, and reinsurance programmes of one to three years. These rhythms can sit uneasily alongside long-term climate, nature and societal risks that evolve over decades. This misalignment can lead to under-preparation for long-horizon risks or delayed strategic adjustments. Embedding transition considerations into business planning and capital discussions on a 3-5 year time horizon helps bridge this gap. Doing so ensures that shorter-term decisions remain consistent with the insurer's long-term risk view and transition ambition, even when immediate pressures vary.

8.5 First- versus second-order impacts

Insurers may focus too heavily on direct impacts such as claims or asset impairment while underestimating broader system-level effects. Transition risks can manifest through supply-chain disruption, policy change, macroeconomic instability, shifts in consumer behaviour or ecosystem degradation. A TBS approach encourages insurers to consider not only immediate portfolio outcomes, but also how these second-order effects may compound risks across underwriting insurability, resilience, customer behaviour, market structure and investment portfolios. Incorporating these broader dynamics into scenario analysis and strategic planning helps ensure that transition plans reflect a more realistic understanding of emerging risks.

8.6 Investments versus underwriting perspectives

Underwriting and investment teams often have different cultures, time horizons and decision frameworks. Underwriters typically focus on near-term risk selection and portfolio volatility, whereas investment teams assess long-term trends, sectoral transition readiness, and return profiles. These differences create inconsistencies unless supported by strong cross-functional governance. Shared analytical frameworks, consistent expectations for counterparties and regular information exchange help bring these perspectives together. A unified view of how exposures interact reinforces cognitive consonance and strengthens the insurer's ability to deliver an integrated transition plan and escalation—through which they can be managed coherently.

By anticipating and managing these implementation challenges, insurers can ensure that their total balance sheet transition plans are robust, proportionate and aligned with their long-term strategic objectives. This strengthens the credibility of the plan and the insurer's capacity to harness its total balance sheet to enhance its long-term business resilience, contribute to financial stability, and insure and invest in a just, resilient and sustainable transition of the real economy.

Tools and appendices

Glossary

Biodiversity

The variety of life on Earth at all its levels, from genes to ecosystems, encompassing the evolutionary, ecological, and cultural processes that sustain life. In the context of transition planning, biodiversity loss represents both a risk driver and an area where insurers' underwriting and investment activities can have material impacts.

Source: Convention on Biological Diversity—cbd.int/convention/articles/?a=cbd-02

Climate Scenario Analysis

A forward-looking analytical tool used to explore how an organization's strategy and financial position might evolve under different plausible future climate pathways. Scenarios typically include physical risk scenarios (e.g. high warming) and transition risk scenarios (e.g. disorderly or orderly transition to net zero). Used in the TBS approach to test resilience of underwriting and investment portfolios.

Source: NGFS Scenarios Portal—ngfs.net/ngfs-scenarios-portal/

Cognitive Consonance

A concept central to the TBS approach, referring to the consistent internal logic which ensures that any differences across the balance sheet are deliberate, evidence-based, time-bound, and governed transparently. Cognitive consonance ensures that underwriting and investment activities apply aligned principles and mutually reinforcing engagement. It does not require identical treatment of risks across portfolios, but ensures differences are understood, monitored, governed, and aligned with a coherent transition ambition.

Source: UNEP FIT—Total Balance Sheet Transition Plan Principles—unepfi.org/industries/insurance/

Combined Operating Ratio (CoR)

A key performance metric in non-life insurance measuring underwriting profitability, calculated as claims incurred plus operating expenses divided by net earned premiums. A CoR below 100% indicates underwriting profit; above 100% indicates a loss. Climate and transition risks can increase claims frequency and severity, directly affecting the CoR.

Source: EIOPA—Insurance Statistics—eiopa.europa.eu/index_en

Corporate Sustainability Reporting Directive (CSRD)

An EU directive requiring large companies and listed SMEs to disclose how sustainability issues affect them financially and how their activities impact people and the environment. It introduces double materiality and requires reporting under the European Sustainability Reporting Standards (ESRS). The CSRD came into effect on 1 January 2024.

Source: European Commission—Corporate Sustainability Reporting—finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

Decarbonization

The process of reducing carbon dioxide and other greenhouse gas emissions from economic activities, with the goal of reaching net zero. In an insurance context, decarbonization applies both to an insurer's own operational emissions and to the transition of underwriting and investment portfolios towards lower-carbon activities and sectors.

Source: IPCC Sixth Assessment Report—ipcc.ch/assessment-report/ar6/

Double Materiality

A concept introduced by the EU CSRD requiring organizations to assess sustainability from two perspectives: (1) financial materiality—how sustainability issues affect the company financially (outside-in); and (2) impact materiality—how the company's activities impact people and the environment (inside-out). Both dimensions must be considered when identifying material Issues, Risks and Opportunities (IROs).

Source: EFRAG—ESRS 1 Materiality Assessment Implementation Guidance—efrag.org/en/projects/esrs-implementation-guidance-documents/ig-1-materiality-assessment

Fiduciary Duty

The legal and ethical obligation of financial institutions and their directors to act in the best long-term interests of their beneficiaries, policyholders, or clients. Increasingly, regulators and courts recognize that fiduciary duty encompasses consideration of long-term systemic risks such as climate change, where these could affect the long-term value of assets or liabilities.

Source: UNPRI—Fiduciary Duty in the 21st Century—unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century-final-report/4619.article

Forum for Insurance Transition (FIT)

The Forum for Insurance Transition (FIT) is a structured dialogue and multistakeholder 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) and engages with insurance regulators and supervisors, sustainability standard setters and initiatives, the scientific and academic community, civil society, and other key stakeholders (e.g. sustainability disclosure initiatives, real economy actors).

Source: UNEP—Forum for Insurance Transition—unepfi.org/forum-for-insurance-transition-to-net-zero/

Greenwashing

The practice of making misleading or unsubstantiated claims about the environmental benefits or sustainability credentials of an organization's products, strategies or activities. Regulators globally are scrutinizing transition plans for greenwashing risks, with legal and reputational consequences for organizations that over-claim their climate commitments.

Source: FCA—Sustainability Disclosure Requirements and Labels—Sustainable investment labels and anti-greenwashing | FCA

IFRS S1 and IFRS S2

Two sustainability disclosure standards issued by the International Sustainability Standards Board (ISSB) in June 2023. IFRS S1 sets general requirements for disclosure of sustainability-related

financial information. IFRS S2 provides specific climate-related disclosure requirements, building on the TCFD framework and covering physical risks, transition risks, scenario analysis, and climate governance. Both standards apply a financial materiality lens.

Source: IFRS Foundation—ISSB Standards—IFRS—IFRS Sustainability Standards Navigator

Issues, Risks and Opportunities (IROs)

A concept used within the CSRD/ESRS double materiality framework. Impacts are sustainability effects connected with the business; Risks are sustainability-related financial risks that could affect the company's position; Opportunities are positive sustainability-related financial prospects. Identifying material IROs is the starting point for determining which sustainability disclosures are required.

Source: EFRAG—ESRS 1 General Requirements—Home | EFRAG Knowledge Hub

Just Transition

A framework ensuring the shift to a low-carbon, climate-resilient economy is fair and inclusive. It addresses the social and economic consequences for workers, communities, and access to essential services including insurance. In the TBS context, insurers must consider how underwriting and investment decisions affect insurance affordability, availability, and the position of vulnerable groups.

Source: International Labour Organization (ILO)—Just Transition—Just transition towards environmentally sustainable economies and societies | International Labour Organization

Nature-positive

A global goal describing a trajectory in which biodiversity, ecosystems and natural processes are being restored and regenerated rather than lost. Achieving nature-positive requires halting and reversing nature loss by 2030 (against a 2020 baseline) and full recovery by 2050. Relevant to insurers given the dependency of many insured sectors on ecosystem services and the growing intersection of climate and biodiversity risks.

Source: Taskforce on Nature-related Financial Disclosures (TNFD)—tnfd.global/about/the-taskforce/

Net Zero

A state in which greenhouse gas emissions entering the atmosphere are balanced by equivalent removals, resulting in no net addition to atmospheric concentrations. For insurers, net zero commitments typically cover Scope 1 and 2 operational emissions and, increasingly, Scope 3 financed and insured emissions across underwriting and investment portfolios.

Source: IPCC—Sixth Assessment Report, Working Group I—ipcc.ch/report/ar6/wg1/

Physical Risk

Risks arising from the physical impacts of climate change, including acute risks (event-driven, such as hurricanes, floods, and wildfires) and chronic risks (longer-term shifts such as rising temperatures, sea-level rise, and changing precipitation patterns). Physical risks directly affect insured losses and the value of investment assets, particularly in climate-vulnerable geographies.

Source: IPCC Sixth Assessment Report—ipcc.ch/assessment-report/ar6/

Reinsurance

Insurance purchased by an insurance company (the cedant) from a reinsurer to manage risk and protect against large or unexpected losses. Reinsurance is a critical tool for managing the

accumulation of climate-related losses and plays a central role in determining the financial resilience of primary insurers, particularly as physical risk events become more frequent and severe.

Source: Lloyd's of London—What is Reinsurance?—lloyds.com/about-lloyds/

Solvency

The ability of an insurance company to meet its long-term financial obligations, particularly claims payments to policyholders. Solvency regulation (e.g. Solvency II in the EU) requires insurers to hold sufficient capital to cover underwriting, market, credit, and operational risks. Climate and transition risks are increasingly recognized as sources of solvency stress requiring explicit capital consideration.

Source: EIOPA—Solvency II Overview—Solvency II—European Insurance and Occupational Pensions Authority

Stewardship

The responsible management and oversight of assets on behalf of beneficiaries, including actively engaging with companies in which assets are held to improve their long-term performance on environmental, social, and governance matters. In the TBS context, stewardship is the primary engagement mechanism for investment teams, complementing underwriting-side client engagement.

Source: UK Financial Reporting Council—UK Stewardship Code 2020—frc.org.uk/investors/uk-stewardship-code

Strategic Asset Allocation (SAA)

The long-term target allocation of an investment portfolio across asset classes (e.g. equities, fixed income, real assets), designed to achieve investment objectives within defined risk tolerances. In the TBS context, SAA decisions are a key lever for aligning investment portfolios with the insurer's transition ambition and for managing climate-related financial risk over the long term.

Source: CFA Institute—Investment Portfolio Management—cfainstitute.org/

Stress Testing

A risk management technique assessing the resilience of an organization's financial position under severe but plausible adverse scenarios. Unlike scenario analysis, stress testing typically applies short-term, acute shocks to quantify impacts on solvency, capital buffers, and profit and loss. Regulators increasingly require insurers to conduct climate-specific stress tests.

Source: Bank of England—Climate Biennial Exploratory Scenario (CBES)—bankofengland.co.uk/stress-testing/2022/results-of-the-2021-climate-biennial-exploratory-scenario

Taskforce on Nature-related Financial Disclosures (TNFD)

An international body that developed a voluntary framework for organizations to assess, manage, and disclose their nature-related dependencies, impacts, risks, and opportunities. The TNFD published its final recommendations in September 2023. The framework uses the LEAP approach (Locate, Evaluate, Assess, Prepare) for nature-related risk identification and is closely aligned with TCFD and ISSB standards.

Source: TNFD—Final Recommendations (September 2023)—tnfd.global/publication/recommendations-of-the-taskforce-on-nature-related-financial-disclosures/

Total Balance Sheet (TBS)

An approach to transition planning that views underwriting and investment decisions through a unified lens, recognizing that risks and opportunities on one side of an insurer's balance sheet inevitably influence outcomes on the other. The TBS approach developed by UNEP FIT is structured around six interrelated principles to align Strategic Ambition, portfolio actions, coordinated engagement, measurement, governance, and financial resilience across the whole organization.

Source: UNEP FIT—Total Balance Sheet Transition Plan Principles—unepfi.org/industries/insurance/

Transition Plan

An aspect of an organization's overall strategy setting out targets, actions, and resource allocation for transitioning towards a lower-carbon, climate-resilient economy. Under IFRS S2—the definition adopted by the TPT—a transition plan should be forward-looking, measurable, and grounded in business strategy. Transition plans increasingly form part of mandatory disclosure requirements in the UK, EU, and other jurisdictions.

Source: IFRS S2—Climate-related Disclosures—ifrs.org/issued-standards/list-of-standards/ifrs-s2-climate-related-disclosures/

Transition Plan Taskforce (TPT)

A UK government-convened body launched in April 2022 to develop a gold standard for private sector climate transition plan disclosures. The TPT published its final Disclosure Framework in October 2023, structured around five elements: Foundations, Implementation Strategy, Engagement Strategy, Metrics and Targets, and Governance. The framework is aligned with IFRS S2 and has global applicability. In 2024 the ISSB assumed responsibility for the TPT's disclosure materials.

Source: Transition Plan Taskforce—Disclosure Framework (October 2023)—Disclosure Framework—ITPN

Transition Risk

Risks arising from the process of adjusting to a lower-carbon economy, including policy and legal changes (e.g. carbon pricing, fossil fuel phase-outs), technological developments (e.g. rapid adoption of renewables), market shifts (e.g. changing consumer preferences), and reputational risks. Transition risks affect both underwriting portfolios (through changes in the insurability of high-emitting sectors) and investment portfolios (through asset repricing).

Source: TCFD—Recommendations Report (2017)—fsb-tcfd.org/recommendations/

Underwriting

The process by which an insurer evaluates and prices the risk of insuring a person, business, or asset, and decides whether to provide coverage and on what terms. In the TBS context, underwriting decisions are a primary lever for steering real-economy behaviour towards transition and resilience objectives, alongside investment and engagement activities. Transition planning guidance requires insurers to embed climate and transition considerations into underwriting guidelines and risk appetite.

Source: UNEP FIT—Underwriting the Transition—unepfi.org/industries/insurance/underwriting-the-transition-a-deep-dive-transition-plan-guide-for-insurance-and-reinsurance-underwriting-portfolios/

Implementation checklist

Purpose: The TBS implementation checklist is a governance tool designed to support those in the stages of producing their transition plan. This can be used to track progress, assign accountability, and assess whether all items have been considered.

Action/Deliverable	Owner	Target date	Status Y/N/NA	Notes/evidence
Foundations				
Confirm scope of ambition: climate only, or extended to nature and just transition				
Review and document existing climate and sustainability commitments (targets, exclusions, public statements)				
Identify and document non-negotiable guardrails: solvency, continuity of essential cover, legal/ regulatory constraints, fiduciary duty				
Conduct or update double materiality assessment (CSRD/ESRS) or equivalent IRO assessment to identify material climate risks and opportunities				
Understand external climate transition pathways and regulatory expectations relevant to the organization's key markets				
P1A—Strategic Ambition				
Develop 2–4 ambition options, each with a distinct theory of change, scenario basis and capital reallocation logic				
Test each ambition option against transition and physical risk scenarios covering financial performance, solvency and stakeholder impacts				
Document trade-offs surfaced during ambition testing, including between underwriting and investment portfolios				

Action/Deliverable	Owner	Target date	Status Y/N/NA	Notes/evidence
Select preferred ambition and document rationale, including choices made and alternatives considered				
Obtain Board approval for the Strategic Ambition				
Produce Strategic Ambition Document				
Produce Executive Summary for Exco and Board				
Produce external Strategic Ambition communication				
P1B—Risk Appetite				
Develop or update risk appetite statement covering transition, physical and reputational climate risks across underwriting and investment				
Explicitly address the cross-balance-sheet coherence test: identify where differences between underwriting and investment risk tolerances are acceptable and document the rationale				
Define governance triggers and escalation pathways for when tolerances are approached or breached				
Align ORSA scenario assumptions with investment portfolio stress test scenarios (use same climate pathways)				
Obtain Board Risk Committee approval for the climate risk appetite statement				

Action/Deliverable	Owner	Target date	Status Y/N/NA	Notes/evidence
Build cross-balance-sheet Portfolio Map using the minimum viable template (sector, geography, counter-party, exposure type, role, timing, transition readiness, physical risk flag, nature flag, policies, engagement status)				
Identify all counterparties/sectors where the organization both underwrites and invests—log in Portfolio Map				
Identify and document all material contradictions between underwriting and investment positions—log in Divergence and Trade-off Register				
Add nature and just transition overlay to Portfolio Map (leading practice)				N/A for insurers at early stage
Embed TBS climate strategy into underwriting guidelines, pricing tools and investment mandates				
P3—Coordinated Engagement				
Establish joint underwriting/investment process to identify top priority clients and investees for coordinated engagement (recommend top 10–20)				
Agree shared engagement objectives, transition expectations and escalation timelines for priority counterparties				
Define escalation actions: what happens if engagement does not produce adequate progress by agreed milestones				

Action/Deliverable	Owner	Target date	Status Y/N/NA	Notes/evidence
Verify that messages delivered to the same counter-party by underwriting and investment teams are consistent				
Establish feedback loop between underwriting renewal team and investment stewardship team				
P4—Coherent Measurement				
Identify and agree priority metrics across underwriting and investment portfolios spanning: financed/insured emissions, physical risk, transition risk, nature-related, social/just transition				
Select a single external climate data source to be applied consistently across underwriting analysis and investment analysis (cognitive consonance requirement)				
Conduct forward-looking scenario analysis using consistent scenarios across both portfolios				
Design measurement framework: articulate how short-term metric movements will be interpreted in context of long-term strategic direction				
Document all assumptions, proxies, data limitations and estimation methodologies				
Assign metric ownership across underwriting, investment, risk and sustainability functions				
Establish reporting cadence and review cycle aligned with governance and disclosure timelines				

Action/Deliverable	Owner	Target date	Status Y/N/NA	Notes/evidence
P5—Oversight and Incentives				
Establish or confirm cross-functional governance body with authority over both underwriting and investment transition decisions				
Ensure governance body includes actuarial, underwriting, investment, risk, finance and sustainability representation				
Obtain board-level governance mandate for the integrated TBS transition plan				
Define and implement escalation process for resolving conflicts between underwriting and investment positions				
Link relevant climate KPIs to senior management remuneration across both underwriting and investment functions				
Develop capability-building plan: climate training requirements for board, senior management and operational teams				
Align annual planning, underwriting guidelines and investment mandates with the transition ambition and risk appetite				

Action/Deliverable	Owner	Target date	Status Y/N/NA	Notes/evidence
P6—Financial Resilience and Solvency				
Conduct climate stress testing covering both underwriting liabilities and investment portfolio under consistent climate scenarios (including physical risk, transition risk and combined scenarios), calibrated to tail-risk outcomes rather than central projections				
Explicitly model the interaction between underwriting claims stress and investment portfolio repricing under the same scenario (do not model sides separately)				
Apply stress tests at the highest practical level of geographic granularity—avoid aggregating exposures at state or regional level in ways that mask localized concentrations affecting both underwriting liabilities and investment assets simultaneously				
Establish a process for periodically reviewing and recalibrating stress testing assumptions in light of observed climate outcomes—update parameters if global climate targets fail to be met, reflecting the upward shift in whole balance sheet risk				
Assess reinsurance programme adequacy under climate stress scenarios				
Integrate scenario analysis outputs into ORSA and capital planning processes				

Action/Deliverable	Owner	Target date	Status Y/N/NA	Notes/evidence
Test solvency resilience against both acute physical risk events and long-term chronic physical risk pathways				
Document data and modelling limitations openly; develop roadmap for improving scenario capability				
Cognitive Consonance Test				
Apply Cognitive Consonance Operational Test at each transition plan review and whenever there is a material change in strategy, UW appetite, investment mandate or stewardship approach				
Maintain Divergence and Trade-off Register; review at each governance committee meeting				
Ensure all Escalate and Prohibit items in the Register are tabled at the next governance meeting				
Disclosure & external reporting				
Align transition plan disclosures with applicable frameworks (see Regulatory Mapping tab)				
Ensure external narrative is consistent across underwriting and investment functions and does not create greenwashing exposure				
Disclose trade-offs, limitations and data gaps transparently; do not over-claim				
Review and update transition plan on at least an annual cycle				

Regulatory and supervisory framework mapping by geography

Purpose: to identify which regulatory and supervisory frameworks apply by geography, and how each maps to the TBS Principles. Use this to prioritize compliance activity based on your jurisdictions of operation. Frameworks marked Mandatory require formal compliance; Voluntary frameworks represent leading practice disclosure standards. All dates and status correct as of April 2026—verify currency before use.

Note: Applicability: Mandatory—legal/regulatory requirement, Supervisory guidance = effectively expected by the regulator, Voluntary—leading practice/may be adopted by jurisdiction(s).

Framework/Regulation	Type	Regulator/Body	Year	TBS Principles	Mandatory/ Voluntary	Key requirements for TBS	Reference
Rows are grouped by geography. Click any framework name to visit the source. Update 'Year' and 'Key requirements' cells as regulations develop.							
Global							
IFRS S1—General sustainability disclosures	Disclosure	ISSB/IFRS Foundation	2023	P1a, P1b, P4, P5, P6	Voluntary (adopted by jurisdiction)	General requirements for disclosure of sustainability-related financial information. Financial materiality lens. Covers governance, strategy, risk management, metrics and targets across all sustainability topics.	ifrs.org/issued-standards/ifrs-sustainability-disclosure-standards/
IFRS S2—Climate-related disclosures	Disclosure	ISSB/IFRS Foundation	2023	All principles	Voluntary (adopted by jurisdiction)	Specific climate-related disclosure requirements. Covers physical risk, transition risk, scenario analysis, GHG metrics, financed emissions, governance and strategy. Builds on TCFD framework.	ifrs.org/issued-standards/list-of-standards/ifrs-s2-climate-related-disclosures/
IAIS Application Paper on Climate Risk Supervision	Prudential/ Supervisory	IAIS	2021/ updated 2025	All principles	Supervisory guidance (adopted by national regulators)	Global supervisory expectations for insurers on climate risk. Covers governance, strategy, risk management, scenario analysis, disclosure and proportionality. Referenced by PRA, APRA, MAS and others.	iaisweb.org/activities-topics/financial-stability-and-macroprudential-policy/climate-risk/
TCFD Recommendations	Disclosure	FSB Task Force	2017/ integrated into ISSB 2024	P1a, P1b, P4, P5, P6	Voluntary (basis for IFRS S2 and many national regimes)	Four pillars: Governance, Strategy, Risk Management, Metrics and Targets. Now integrated into IFRS S2 and TPT. Still referenced by many insurers as the disclosure baseline.	fsb-tcfd.org/recommendations/
TNFD Recommendations	Disclosure	Taskforce on Nature-related Financial Disclosures	2023	P1a, P2, P4, P5	Voluntary	Nature-related disclosure framework using LEAP approach (Locate, Evaluate, Assess, Prepare). Covers dependencies, impacts, risks and opportunities (DIROs). Aligned with TCFD/ ISSB structure.	tnfd.global/publication/recommendations-of-the-taskforce-on-nature-related-financial-disclosures/

Framework/Regulation	Type	Regulator/Body	Year	TBS Principles	Mandatory/ Voluntary	Key requirements for TBS	Reference
PCAF Global GHG Accounting Standard	Methodology	Partnership for Carbon Accounting Financials	2020/Part A 3rd ed. 2025/Part C 2022	P4	Voluntary methodology standard	Part A: Financed emissions (investments). Part C: Insurance-associated emissions (underwriting). Data quality scoring 1-5. Aligned with GHG Protocol Scope 3 Category 15.	carbonaccountingfinancials.com/standard
ILO Just Transition Guidelines	Policy/Social	International Labour Organization	2015/ updated guidance 2022	P1a, P1b, P3, P4, P5	Non-binding guidance	Framework for ensuring transition to low-carbon economy is fair and inclusive. Covers decent work, social protection, community resilience and just transition planning. Referenced in Strategic Ambition and engagement strategy.	ilo.org/publications/guidelines-just-transition-towards-environmentally-sustainable-economies
Kunming-Montreal Global Biodiversity Framework (GBF)	Policy/Nature	UN Convention on Biological Diversity	2022	P1a, P2, P4	Non-binding international agreement	Nature-positive goal: halt and reverse nature loss by 2030. Target 15 requires business disclosure and assessment of nature-related dependencies, impacts and risks. Policy anchor for TNFD framework.	cbd.int/gbf
IAIS ICP7—Corporate Governance	Prudential/ Supervisory	IAIS	2011 (updated December 2024)	P1a, P1b, P3, P5	Supervisory guidance (adopted by national regulators)	Requires insurers to establish a corporate governance framework providing for sound and prudent management, including clear definition of roles and responsibilities, conflicts of interest policies, remuneration practices and board oversight. Relevant to TBS governance structures, escalation arrangements and incentive design across underwriting and investment functions.	iais.org/icp-online-tool/
IAIS ICP 19—Conduct of Business	Prudential/ Supervisory	IAIS	2011 (updated December 2024)	P3, P5	Supervisory guidance (adopted by national regulators)	Requires insurers to treat customers fairly and manage conflicts of interest in client-facing activities. Directly relevant to coordinated engagement arrangements where underwriting and investment teams interact with the same counter-party, including requirements governing information barriers, client intelligence handling and conduct risk controls.	iais.org/icp-online-tool/

Framework/Regulation	Type	Regulator/Body	Year	TBS Principles	Mandatory/ Voluntary	Key requirements for TBS	Reference
European Union							
Corporate Sustainability Reporting Directive (CSRD)	Disclosure	European Commission	2024 (phased)	All principles	Mandatory (large companies and listed SMEs)	Requires double materiality assessment (IROs). Reporting under ESRS. Covers climate (E1), other environmental topics (E2-E5), social (S1-S4) and governance (G1). Applies to EU companies and non-EU with significant EU operations.	finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en
ESRS E1—Climate change	Reporting Standard	EFRAG/ European Commission	2024	P1a, P1b, P4, P6	Mandatory under CSRD	Detailed climate disclosure requirements under CSRD. Covers transition plan, physical risk, transition risk, GHG emissions metrics and financial effects. Most directly relevant ESRS standard for TBS transition planning.	efrag.org/en/sustainability-reporting/esrs-workstreams/sector-agnostic-standards-set-1-esrs
ESRS E2-E5—Other environmental topics	Reporting Standard	EFRAG/ European Commission	2024	P1a, P2, P4	Mandatory under CSRD (where material)	E2: Pollution. E3: Water and marine resources. E4: Biodiversity and ecosystems. E5: Resource use and circular economy. Apply where material under double materiality assessment. Relevant for nature-related TBS dimensions.	
Solvency II—Climate risk integration	Prudential	EIOPA/ European Commission	2016/ climate guidance 2021 & 2023	P1b, P5, P6	Mandatory (EU insurers)	EIOPA guidance (2021, 2023) requires insurers to integrate climate risk into ORSA, governance and risk management. Scenario analysis increasingly expected. Article 45 ORSA is primary vehicle for TBS financial resilience work.	eiopa.europa.eu/insurance/solvency-ii_en

Framework/Regulation	Type	Regulator/Body	Year	TBS Principles	Mandatory/ Voluntary	Key requirements for TBS	Reference
Sustainable Finance Disclosure Regulation (SFDR)	Disclosure	European Commission	2021	P2, P4	Mandatory (EU financial market participants)	Requires entity-level principal adverse impact (PAI) disclosures and product-level sustainability disclosures. PAI indicators require portfolio-level exposure data. Relevant for investment portfolios and insurance-based investment products.	finance.ec.europa.eu/sustainable-finance/disclosures/sustainability-related-disclosure-financial-services-sector_en
EU Taxonomy Regulation	Classification/ Disclosure	European Commission	2020/ climate delegated act 2021	P2, P4	Mandatory (large companies under CSRD)	Defines taxonomy-aligned and taxonomy-eligible economic activities. Article 8 KPIs: taxonomy-aligned revenue, capex and opex. Directly relevant to identifying transition-aligned underwriting and investment activities.	finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en
Corporate Sustainability Due Diligence Directive (CSDDD)	Due Diligence	European Commission	2024 (phased from 2027)	P1a, P3	Mandatory (large EU and non-EU companies)	Requires identification and remediation of adverse human rights and environmental impacts in own operations and value chains. Relevant for client and investee engagement strategy and just transition obligations.	commission.europa.eu/business-economy-euro/doing-business-eu/corporate-sustainability-due-diligence_en

Framework/Regulation	Type	Regulator/Body	Year	TBS Principles	Mandatory/ Voluntary	Key requirements for TBS	Reference
United Kingdom of Great Britain and Northern Ireland							
TPT Disclosure Framework	Disclosure	Transition Plan Taskforce/ISSB	2023	All principles	Voluntary (basis for UK mandatory disclosure regime)	Five elements: Foundations, Implementation Strategy, Engagement Strategy, Metrics and Targets, Governance. Aligned with IFRS S2. Now maintained by ISSB. The most directly aligned framework with TBS approach.	transitiontaskforce.net/disclosure-framework/
PRA SS3/19—Climate financial risk	Prudential/ Supervisory	Prudential Regulation Authority (Bank of England)	2019/ updated 2023	All principles	Mandatory (PRA-regulated insurers)	Supervisory expectations on governance, risk management, scenario analysis and disclosure. Requires board-level accountability, climate risk integration in ORSA, forward-looking scenario analysis. Most detailed prudential guidance for UK insurers.	bankofengland.co.uk/prudential-regulation/publication/2019/enhancing-banks-and-insurers-approaches-to-managing-the-financial-risks-from-climate-change-ss
FCA Sustainability Disclosure Requirements (SDR)	Disclosure	Financial Conduct Authority	2023/2024	P1a, P4	Mandatory (FCA-regulated firms)	Anti-greenwashing rule, sustainability labels for investment products, entity-level and product-level disclosures. Relevant for insurance-based investment products and group-level climate claims and commitments.	fca.org.uk/firms/climate-change-and-sustainable-finance/sustainability-disclosure-requirements-sdr-regime

Framework/Regulation	Type	Regulator/Body	Year	TBS Principles	Mandatory/ Voluntary	Key requirements for TBS	Reference
United States (Note: specific state level requirements are not included)							
SEC Climate Disclosure Rule	Disclosure	Securities and Exchange Commission	2024 (rule vacated April 2025)	P1a, P1b, P4, P6	Vacated (April 2025)	Requires disclosure of climate-related risks, governance, strategy, scenario analysis and GHG emissions (Scope 1 and 2 mandatory; Scope 3 if material or targeted). Broadly aligned with IFRS S2. Status subject to legal proceedings. Rule was stayed and subsequently withdrawn by the SEC; no mandatory climate disclosure requirement currently in force for SEC-registered companies at federal level. State-level requirements (e.g. California SB 253, SB 261) remain active in relevant jurisdictions.	sec.gov/newsroom/press-releases/2024-31
NAIC Climate Risk Disclosure Survey	Supervisory/ Disclosure	National Association of Insurance Commissioners	2010/ annual	P1a, P1b, P4	Mandatory for large insurers in participating states	Annual climate risk disclosure survey for insurers. Covers governance, risk management, engagement, scenario analysis and emissions. Less prescriptive than EU or UK frameworks but primary climate disclosure mechanism for US insurers.	content.naic.org/sites/default/files/inline-files/ACLI_Redline.pdf
Australia							
APRA CPG 229—Climate Change Financial Risks	Prudential/ Supervisory	Australian Prudential Regulation Authority	2021	All principles	Supervisory guidance (effectively mandatory for APRA-regulated entities)	Most detailed prudential climate guidance globally. Covers board governance, risk management, scenario analysis (physical and transition), disclosure and proportionality. Frequently cited as international best practice benchmark.	apra.gov.au/sites/default/files/2021-11/Final%20Prudential%20Practice%20Guide%20CPG%20229%20Climate%20Change%20Financial%20Risks.pdf
ASRS 1—Climate-related financial disclosures	Disclosure	Australian Sustainability Reporting Standards Board	2024 (phased from 2025)	P1a, P1b, P4, P5, P6	Mandatory (phased by entity size from Jan 2025)	Australian mandatory climate disclosure standard, closely aligned with IFRS S2. Requires governance, strategy, risk management and metrics disclosures. Largest entities required to disclose from financial years starting January 2025.	aasb.gov.au/admin/file/content105/c9/AASBED_SR1_10-23.pdf

Framework/Regulation	Type	Regulator/Body	Year	TBS Principles	Mandatory/ Voluntary	Key requirements for TBS	Reference
Singapore							
MAS Guidelines on Environmental Risk Management (Insurers)	Prudential/ Supervisory	Monetary Authority of Singapore	2020 (issuance date)	All principles	Supervisory guidance (effectively mandatory for MAS-regulated insurers)	Covers board and senior management responsibilities, risk management framework, business strategy, disclosure. Requires insurers to assess environmental risk across underwriting and investment activities. Key framework for Asia-Pacific insurers.	mas.gov.sg/regulation/guidelines/guidelines-on-environmental-risk-management-for-insurers
Singapore Climate Reporting Disclosure Requirements	Disclosure	Singapore Exchange/ Accounting and Corporate Regulatory Authority	2023 (phased)	P1a, P4	Mandatory (SGX-listed companies and large non-listed companies, phased by size).	Mandatory climate reporting aligned with IFRS S2 for SGX-listed companies. Phased introduction: large-cap from FY2025, mid-cap from FY2027. Relevant for Singapore-listed insurers and regional holding companies. Phased Introduction: Scope 1 and 2 and other ISSB-based CRD for Straits Times Index (STI) constituents from FY 2025, Scope 3 for STI constituents from FY 2026, other ISSB-based CRD for non-STI constituents from FY 2028 or FY 2030, depending on market cap. Large, non-listed companies from FY2030. Relevant for Singapore-listed insurers and regional holding companies.	rulebook.sgx.com/rulebook/practice-note-76-sustainability-reporting-guide
Brazil							
SUSEP Resolution 431/ CMN Resolution 4945	Prudential/ Disclosure	SUSEP/CMN	2022	P1a, P1b, P4, P5	Mandatory (Brazilian insurers and financial institutions)	SUSEP Resolution 431 requires insurers to integrate climate and sustainability risks into governance and risk management. CMN Resolution 4945 requires financial institutions to adopt Social, Environmental and Climate Risk Policy (PRSAC). Both align with IAIS guidance.	susep.gov.br/

Cross balance sheet portfolio map

Purpose: to map underwriting and investment exposures across a common set of sectors, geographies and counterparties, identifying where positions are aligned, where they are complementary, and where contradictions exist. Complete one row per material sector/geography/counter-party combination. Adapt columns to organizational context. Source: TBS Implementation Guidance, Principle 2. Note, examples provided are for illustration only.

Sector/ Sub-sector (transition-critical activities)	Geography (incl. hazard-prone regions)	Counter-party/ Portfolio segment	Underwriting exposure type (Premium/ Claims)	Investment exposure type (AUM/ Credit)	Role (UW only/ Inv only/ Both)	Renewal/ decision timing	Transition readiness indicator	Physical risk flag (H/M/L)	Nature sensitivity flag (H/M/L)	Current policies (exclusions, conditions, stewardship stance)	Engagement status & escalation stage
[Sector/ sub-sector]	[Geography]	[Counter-party/ segment]	[UW exposure type and size]	[Investment exposure type and size]	[Role]	[Timing]	[Indicator]	[H/M/L]	[H/M/L]	[Policies applied]	[Engagement status]
Oil & Gas—Upstream extraction	North Sea (UK); Gulf of Mexico (US)	Major integrated O&G companies (3 named counterparties—see annex)	Property damage; liability; energy package Gross premium: ~£45m	Listed equity + IG corporate bonds AUM exposure: ~£180m	Both	Underwriting: annual renewal Jan Investment: continuous/ bond maturity 2027–2031	▪ Partial—transition plans disclosed but 2030 targets lack credibility assessment	M	L	UW: No new greenfield extraction projects (2023 policy). Existing production: conditions applied re. methane reduction milestones. Inv: Active stewardship—voted against remuneration report 2024; escalation letter issued.	**Escalate**—stewardship engagement ongoing; underwriting conditions milestone review due Q1 2026

Sector/ Sub-sector (transition-critical activities)	Geography (incl. hazard-prone regions)	Counter-party/ Portfolio segment	Underwriting exposure type (Premium/ Claims)	Investment exposure type (AUM/ Credit)	Role (UW only/ Inv only/ Both)	Renewal/ decision timing	Transition readiness indicator	Physical risk flag (H/M/L)	Nature sensitivity flag (H/M/L)	Current policies (exclusions, conditions, stewardship stance)	Engagement status & escalation stage
Utilities—Power generation (coal, gas, renewables)	Central & Eastern Europe; SE Asia	State-owned utilities (2); Private generators (4)	Engineering; construction all risk; business interruption Gross premium: ~£28m	Green bonds; infrastructure debt AUM exposure: ~£95m	Both	Underwriting: annual/ biennial Investment: 5–10yr infrastructure debt	▪ Credible plan—coal phase-out commitments aligned with national NDCs; renewable capex plans verified	H	M	UW: Coal exclusion applied to new coal-fired capacity. Transition conditions applied to gas. Renewables actively supported. Inv: Positive stewardship stance; green bond allocation increased 2024.	**Aligned**—consistent underwriting and investment position. Annual review.
Agriculture—Commercial farming & agri-business	Brazil (Cerrado); Sub-Saharan Africa	Large agri-businesses (commercial) SME farming cooperatives	Crop; livestock; agri-property Gross premium: ~£12m	Agri-bonds; development finance AUM exposure: ~£22m	Both	Underwriting: annual (crop season) Investment: 3–7yr development finance	▪ No plan—SME segment; limited disclosure capacity	H	H	UW: No deforestation conditions applied at renewal 2024. Nature sensitivity flag added. Inv: TNFD LEAP assessment initiated. No active stewardship policy yet for SME segment.	**Explain**—divergence: investment in region without deforestation conditions on UW side. Rationale: SME capacity constraints. Review: Dec 2025.

Divergence and trade-off register

Purpose: Tool for recording all instances where underwriting and investment positions are inconsistent or in tension—whether that is an unintended contradiction that needs resolving, or a conscious trade-off that has been navigated and approved. Its purpose is to ensure that wherever differences exist across the balance sheet, they are intentional, documented, owned and subject to regular review. Two examples are outlined below for illustration purposes only

Ref	Sector/ counter-party	Geography	Date logged	Entry type (D/T/ D+T)	Cognitive consonance status	Description (nature of divergence or trade-off)	UW position summary	Investment position summary	Balance sheet impact	Chosen course of action	UW/Inv owner	Approving body	Next review date
[DR-XXX]	[Sector/ counter-party]	[Geography]	[Date]	[D/T/ D+T]	[Escalate/ explain/ prohibit]	[Describe the divergence, trade-off or tension between UW and investment positions]	[Current UW policy or stance]	[Current investment position]	[Describe balance sheet impact of this divergence or trade-off]	[Document the chosen course of action and rationale]			
001	Oil & Gas—Upstream extraction	North Sea (UK); Gulf of Mexico (US)	Jan 2025	D	Escalate	Transition readiness rated only Partial (). UW conditions milestone review overdue. Credibility of counter-party transition plans not yet independently assessed; investment stewardship escalation ongoing but not yet concluded.	No new greenfield extraction (2023 policy). Methane reduction milestone conditions on existing production. UW renewal Jan.	Listed equity + IG bonds (~£180m AUM). Active stewardship—voted against remuneration 2024; escalation letter issued.	If UW conditions not met at Jan renewal, capacity reduction likely (~£45m GWP at risk). Investment exit would crystallize ~£180m reallocation need.	Maintain current UW conditions and investment stewardship escalation in parallel. Joint credibility assessment to be completed before Jan renewal.	[UW lead]	[CRO/ESG Cttee]	

Ref	Sector/ counter-party	Geography	Date logged	Entry type (D/T/ D+T)	Cognitive consonance status	Description (nature of divergence or trade-off)	UW position summary	Investment position summary	Balance sheet impact	Chosen course of action	UW/Inv owner	Approving body	Next review date
-002	Flood-exposed residential (cross-portfolio)	Coastal UK; Florida (US)	Mar 2025	T	EXPLAIN	Trade-off between risk-based pricing and affordability for policyholders in climate-vulnerable areas	UW repricing model indicates +15–40% required on highest-risk zones. Withdrawal being modelled for extreme cases.	REIT and mortgage-backed exposure in same geographies (~£40m). Investment returns sensitive to insurance availability sustaining property values.	Abrupt repricing risks customer loss, reputational damage and underinsurance in vulnerable communities. Insufficient repricing risks solvency pressure and mis-priced transition risk.	Phased repricing approach over 2 renewal cycles. Engage local authorities on public-private resilience mechanisms. Maintain cover where socially essential.	[UW lead]	[Board/ Exco]	

Minimum viable TBS transition plan

For firms at an earlier stage of implementation, a proportionate starting point should include the following components. This minimum viable approach is intended to support progress where data, modelling, stewardship or resourcing capabilities are still developing, while retaining the core discipline of total balance sheet coherence.

- A board-approved strategic ambition, scope and non-negotiable guardrails.
- A materiality assessment covering underwriting, investments, claims and operations.
- A minimum portfolio map by sector, geography, line of business and material investment exposure.
- An initial divergence and trade-off register with named owners and review dates.
- A priority engagement list or priority sector list, with legally reviewed engagement protocols.
- A balanced scorecard using available metrics, documented proxies and data quality scores.
- A governance owner, escalation route and annual review cycle.
- A clear link to ORSA, stress testing, risk appetite, business planning, reinsurance strategy and financial planning.

FIT total balance sheet principles and TPT interoperability map

To support firms using this guide alongside transition plan disclosure expectations, this guide should be read as an insurance-specific implementation companion to the TPT Disclosure Framework. The TPT framework is disclosure-oriented; this FIT guide adds the operational total balance sheet lens across underwriting, investments, claims, risk appetite, engagement, governance and financial resilience.

TPT element	Relevant FIT TBS principle	Insurance-specific contribution of this guide
Foundations	Principle 1	Converts strategic ambition into a total balance sheet ambition covering underwriting, investments, claims, resilience and insurability.
Implementation Strategy	Principles 1, 2 and 6	Translates ambition into underwriting appetite, investment strategy, portfolio steering, product development, capital planning and solvency considerations.
Engagement Strategy	Principle 3	Extends engagement beyond investor stewardship to clients, cedants, brokers, policyholders, suppliers, public authorities and real-economy actors.
Metrics & Targets	Principle 4	Combines insured emissions, financed emissions, transition readiness, physical risk, resilience, affordability, availability and financial resilience metrics.
Governance	Principle 5	Embeds board oversight, executive accountability, incentives, escalation and cross-balance-sheet challenge mechanisms.

UN environment programme

finance initiative

UNEP Finance Initiative brings together a large network of banks, insurers and investors that catalyzes action across the financial system to deliver more sustainable global economies.

For more than 30 years the Initiative has been connecting the UN with financial institutions from around the world to shape the sustainable finance agenda. We've established the world's foremost sustainability frameworks, helping the finance industry achieve sustainability goals, address sustainability risks and identify the business opportunities in taking a responsible approach to banking and insurance.

Convened by a Geneva, Switzerland-based secretariat, more than 550 banks and insurers are individually implementing UNEP FI's Principles for Responsible Banking and Principles for Sustainable Insurance. Financial institutions work with UNEP FI on a voluntary basis to apply these industry frameworks and develop practical guidance and tools that drive institutional change, shaping the future of sustainable finance and positioning their businesses for the transition to a sustainable and inclusive economy. In parallel, UNEP FI also drives systems change and fosters enabling conditions in service of the broader mission to mobilize and align private finance to help achieve the UN Sustainable Development Goals.

Founded in 1992, UNEP FI was the first organization to engage the finance sector on sustainability and incubated the Principles for Responsible Investment, now the world's leading proponent of responsible investment.

Today, we cultivate leadership and advance sustainable market practice while supporting the implementation of global programmes at a regional level across Africa & the Middle East, Asia Pacific, Europe, Latin America & the Caribbean, and North America.

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