

Newsflash

Consultation from Lloyd’s of London - A roadmap to a braver, more sustainable tomorrow

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On 23 November 2023, Lloyd’s published a [roadmap consultation paper](#), setting out their proposed approach for managing sustainability risks over the next three years.

Overview


The roadmap has been designed to support market participants in developing and embedding their own sustainability strategies, and in navigating the ever-evolving regulatory reporting requirements. It aims to provide greater clarity on Lloyd’s ambition to become the marketplace for the transition to net-zero, outlining its oversight framework, and sharing toolkits for the market to navigate the global transition. The areas covered by the paper include underwriting, investments, exposure management and capital and reserving. We have summarised the key takeaways from the roadmap below.

Key areas of focus

The increasing frequency and severity of climate events has brought about the need to understand the impacts of these events, which has furthered the need to provide disaster resilience solutions and protect balance sheets – an area in which Lloyd’s will be keen to support on.

Lloyd’s have stated that going forward, the Annual Sustainability Strategy of managing agents should consider the following 5 key areas:

Governance	Lloyd’s expects boards and executives of firms to show climate risks being consolidated into various areas, including business strategies, planning, governance and risk management process, in line with TCFD guidance.
Transition planning	Lloyd’s expects that, in time, Transition Plans will be included as part of Sustainability Strategy submissions. To aid in the reporting of Transition Plans, Lloyd’s has created an open-source credibility framework, which is optional for firms to adopt.
Measurement of GHG emissions	Lloyd’s intends to develop a methodology to baseline the insurance-related GHG emissions of underwriting portfolios in 2024, making use of the Lloyd’s Lab Partnership with Moody’s Analytics. This will allow Lloyd’s to work with managing agents to build a dependable baseline, as well as a framework for communicating the measurement of GHG emissions to a wide range of stakeholders.
Underwriting the transition	Lloyd’s has provided a toolkit in the roadmap document, which can be used to determine the credibility of clients’ transition plans. Lloyd’s will also provide information on new, green product areas, offer research and development for key technologies, and they intend to host roundtable events on related hot topics.
Climate risk management	Climate risk modelling and metrics should continue to be incorporated as part of the sustainability strategies. The assessment should cover all key areas of climate risk management, including physical climate risk, litigation risks and transition risks



The review of the strategies above will be aligned with established transition planning frameworks found in the provided toolkits. As the risk landscape evolves, the framework will be developed further and firms can expect additional details such as insights into its potential integration into oversight principles and business planning over 2024.

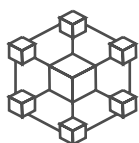
Transition planning

The insurance industry will have a pivotal role to play in facilitating and accelerating the worldwide shift to a low-carbon economy. Lloyd's has provided an optional framework to guide managing agents in the reporting of transition plans. The following outlines several advantages your firm can derive from having a transition plan.



Alignment with expectations

Developing a transition plan ensures that a company's strategies are aligned with the expectations outlined by Lloyd's and the broader industry. It provides a structured approach to meet sustainability goals, enhancing a company's reputation and market positioning.



Resource optimisation

A well-developed transition plan allows businesses to identify and address resource constraints strategically, ensuring efficient use of available resources and minimising potential bottlenecks.



Risk mitigation

A transition plan enables organizations to assess and manage climate-related risks effectively, reducing vulnerabilities and potential liabilities associated with the changing landscape.



Employee engagement

Educating and training employees is a key component of the transition plan. This not only fosters a culture of environmental responsibility within the organisation but also equips employees with the knowledge and skills needed to contribute meaningfully to the company's sustainability objectives.



Innovation and resilience

The document encourages a fit-for-purpose approach and flexibility in meeting sustainability principles. A robust transition plan goes beyond compliance, fostering innovation and adaptability, making the company more resilient in the face of evolving regulatory landscapes and market demands. The transition to a net-zero world will bring forth investment and underwriting opportunities across various sectors that insurance firms can capitalise on.



Strategic positioning

A comprehensive transition plan allows companies to position themselves as leaders in navigating the complexities of the global transition, potentially attracting clients, partners, and investors who prioritise sustainability initiatives.

In addition, Lloyd's has provided a framework regarding the considerations for client transition plans, aiming to fulfil various key stakeholder requirements. In locations where it is permissible under local regulations, firms may collect information on insurers' transition plans. This assessment aims to gauge the progress and credibility of these plans, supporting sustainable business models and mitigating potential economic volatility during a global transition by providing effective (re)insurance covers to these businesses. Lloyd's have stated their intention to ensure their roadmap is aligned with Transition Plan Taskforce (TPT) guidance.

Responsible investments

Lloyd's is collaborating with the market to collectively advance efforts in monitoring and managing climate change risk exposures. This involves exploring methods to quantify scope 3 emissions. Additionally, Lloyd's has announced plans to

create guidance on Principle 8 Investments, sub-principle 5 – Responsible Investments. This guidance will detail approaches to assist managing agents in addressing risks arising from the climate transition.

Managing agents should develop transition plans as part of their responsible investment policies by the end of 2026. Lloyd's will provide thematic feedback to managing agents whose investment policies have been reviewed, and this can be used to further develop policies throughout 2024.

Regulatory requirements and effective practice

Lloyd's emphasises that managing agents should be kept informed of the reporting requirements within their operating territories, ensuring they are able to meet any requirements they are subject to. An overview of sustainability, climate-related regulation, and guidance is provided in the document. Although these frameworks are not mandatory, they serve as valuable tools for structuring strategy or transition. Firms are encouraged to adopt the framework as deemed suitable for their needs.

Lloyd's aims to conduct a capital and reserving market survey in 2024. The survey will assess the capabilities, current methodologies, and identify potential gaps in managing agents' approaches to reserving and modelling with respect to climate change. This initiative will enable Lloyd's to understand how firms have incorporated physical, transition, and litigation risks within their actuarial function.

What can firms do now?

1. Engage with Lloyd's by responding to the consultation by deadline of 31 January 2024;
2. Understand your position against the expectations set out in the roadmap; and
3. Develop a roadmap to meeting these expectations, including an assessment of resource requirements.

At Hymans Robertson, we have been supporting insurers in managing their sustainability risks and opportunities, including supporting our clients with climate scenario modelling, development of data provision, compliance with TCFD and other climate-related regulatory requirements, and setting net-zero transition strategies. If you are interested in any of these topics, or you would like to discuss climate change or any of the above further, please [get in touch](#).

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