

Our role in Net Zero



How LIIBA members will be vital leaders of the world's response to the climate crisis

Climate change is the biggest global risk we face across the planet's economies and societies.¹ In response, Governments, businesses and civil society are embracing the goal of Net Zero, where the amount of carbon we emit is no more than we remove. Across their value chain, businesses need to make deep cuts to greenhouse gas emissions and remove residual emissions from the atmosphere. Finance will play a significant role.

The Chancellor of the Exchequer and the City of London Corporation have set the ambition for London to be the global centre for green finance. The UK Government's 2020 statement on its approach to UK financial services after Brexit sets an ambition to position the UK globally at the forefront of green finance².

London has a unique role to play to:

- insure large-scale and complex infrastructure projects,
- measure balance sheet risk for any business and work with the wider UK financial and professional and business services sector, and
- incentivise net zero transition: through the scale of the London market, it can provide stronger price signalling, reducing costs for low climate risk.

London and International Insurance Brokers' Association (LIIBA) is the trade association for Lloyd's brokers active in the specialty and commercial risk market in London. Our members particularly work with large projects (e.g. infrastructure and construction) and

¹ [The Global Risks Report 2021 | World Economic Forum \(weforum.org\)](https://www.weforum.org/reports/the-global-risks-report-2021)

² [Chancellor sets out ambition for future of UK financial services - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/chancellor-sets-out-ambition-for-future-of-uk-financial-services)

transportation networks (aviation, maritime) to provide specialist risk management and insurance for complex and large-scale operations.

London and international brokers are committed to making the UK the leader in green finance and supporting wider financial services to create a global hub. Brokers have a critical and central role to play in the global transition to net zero and are a core component of London's global centre for green finance. We will establish the financial, technological, and human capital and capability to manage the risks associated with carbon transition for clients across the globe.

This paper sets out the role of brokers in net zero and our vision for the London market.

1. Why brokers?

Insurance brokers manage and mitigate risk: brokers measure risk and take it off the balance sheet: enabling commerce to proceed, protecting financial investment, and strengthening societal resilience against uncertainty.

Brokers make change happen - supporting transition and adaptation: The transition to a net zero economy will require significant change and innovation, including behaviour change; new technology and investment in across every part of the economy; and new types of markets. These investments will carry risk: the scale and speed of innovation will involve the use of unproven technology and mechanisms. Insurance plays a critical role in reducing the risk to capital invested. Climate change is no different – but faster and bigger than anything seen before.

Brokers have the expert capability: Brokers and insurers have developed deep expertise in climate modelling over decades, developing assessment of climate risk. Many brokers already have advisory teams with expertise in mitigating environmental risks and reducing energy and carbon costs. These skills and expertise should provide the basis for underpinning the transition to net zero, as every business needs to assess its climate risk, measure its emissions, and disclose its emissions and risk.

2. How we can make Net Zero happen?

There are five areas where the London specialty and commercial risk market can enable the transition to net zero³:

³ This draws on the final report by the UN Environment Programme's (UNEP) Principles for Sustainable Insurance initiative (PSI) on piloting the recommendations of the TCFD Task Force on Climate -Related Financial Disclosure, which identifies three categories of climate change-related risks and opportunities for insurers: **Physical risks** related to changes in weather patterns, temperature and hydrological conditions; **Transition risks** towards a net-zero emissions economy and related fundamental changes in, for example, energy, food and transport systems;

1. Climate risk

Modelling climate risk, supporting adaptation to reduce the impact, and providing cover for residual risk.

2. Transition risk – enabling adoption and acceleration of new technology and solutions

This includes assessing and managing the risks associated with adoption of new technology and market mechanisms to transition to net zero. LIIBA members will play a critical role in enabling clients to adopt low/ zero carbon technologies, overcoming the financial risk of pioneering models. For example, providing risk solutions that enable maritime to adopt electric and hydrogen power or providing risk solutions for offshore wind farms. Brokers can play a significant role in increasing capital and reducing the cost of capital for net-zero projects such as renewable energy and carbon capture and storage.

In terms of transition to a zero-carbon economy, brokers will also be aware of how regulatory, technology and market changes will affect their clients' business model, product needs and risk characteristics across different insurance products.

3. Litigation and liability risk

LIIBA members have a critical role to play in assessing potential future liabilities and regulatory changes⁴. This may include future legal claims and liabilities for emissions. This will require measurement of emissions as well as modelling future policy environments. This should identify the full economic cost of failing to act on emissions. Legal liabilities could also include claims against 'greenwashing', regulatory breaches, fiduciary duties and 'misreading the transition'. This should include, but not exclusively, directors and officers liability (D&O) and indemnity insurance.

4. Measurement of risk and progress

LIIBA members will play a key role in identifying and measuring risks inherent in businesses that do not adapt to net zero, particularly in carbon intensive and extractive industries but increasingly in others: identifying the future risk and the financial case for action to reduce it.

Measurement should advance from static carbon footprint to forward looking risk assessments to judge the company's future transition resilience. Services may include ratification and assurance of measurement towards net zero.

and **Potential litigation risks** pertaining to climate change and breach of underlying legal frameworks on both the business and corporate levels: [PSI-TCFD-final-report.pdf](#))

⁴ Climate change-related litigation might include but is not limited to potential costs, fines and penalties, prosecutions of executives, impacts of valuations and credit ratings, shareholder claims, and exclusions between insured and insurer. See UNSEP PSI report above, page 81, which notes that "insurers have not yet placed significant focus on this issue". Brokers' advisory services may include client risk analysis covering areas such as governance, risk management, metrics and strategy.

New products may also be needed to support those industries who are committed to change but face a longer lead time in transitioning to net zero (e.g. energy technology businesses, who continue to need to serve fossil fuel industries in areas such as oil field safety), providing risk cover that incentivises progress and supports transition.⁵

5. Wider role: application of skills and behaviour change

Brokers have deep expertise in measuring climate risk and modelling the risk of emissions and policy change. These measurement skills have wider applicability as investors, regulators and consumers increasingly demand disclosure of carbon emissions – enabling brokers to provide wider services around carbon measurement and reporting. Increasingly brokers may be providing advisory services to other financial services and more widely, applying their skills and capability to enable other businesses to adapt.

In addition, brokers have a critical role in raising awareness of climate risk, prompting clients to take appropriate action, and supporting effective decision making that focuses on those risks and actions with greatest impact.

3. Case studies and credentials

We are seeing increasing innovation and new products and services being developed by the London market to support clients in the transition to net zero. These include:

- Howden are developing products in the carbon offsetting, disaster relief and supply chain disruption space to combat the risks of the future associated with ESG and climate change.
- Howden have launched Parhelion, a new sustainability-focused insurer, to meet the surge in institutional capital seeking sustainable investment strategies and for clients seeking insurance capital that values their own ESG credentials, with the growing demand from corporates looking for an insurance provider to support their ESG transitions. Parhelion will provide both traditional risk coverage and as well as new ESG-specific products for risks of the future, and will incorporate their own ESG metrics into the underwriting process.
- Marsh and Guy Carpenter are helping clients build resilience to flood risks and the documented increase in natural catastrophe perils witnessed in recent years. Marsh and Guy Carpenter's coverage in the alternative energy space has sparked innovation and been a growth driver. Marsh designed a first of its kind policy placement with a European utility set to lower premium payments based on the client's achievement of sustainable milestones.

⁵ Climate Transition Pathways is a good example of this approach, providing a framework which brokers can apply: [Home – Climate Transition Pathways](#)

- Climate Transition Pathways (CTP) is an accreditation framework created by Willis Towers Watson and independent third-party groups including Volans, a consultancy responsible for the Bankers for Net Zero initiative, and the Climate Bonds Initiative (CBI), a global investment organization committed to climate resilience. Headed by a CTP governance committee it supports business to access insurance capacity and capital while sustaining an orderly transition to low carbon commitments. Businesses benefit from an independently assured accreditation of their transition's alignment to the Paris agreement, helping them to stand out from those making more unsubstantiated claims. Insurance and capital markets can then have confidence to allocate capacity/capital knowing that a rigorous assessment of a company's alignment to Paris, and its ability to deliver this plan, has taken place.
- The AHJ Group (longstanding members of LIIBA), recently attained the status of becoming the first "Climate Neutral" Lloyd's Broking House when working together with ClimatePartner. www.ahjltd.co.uk/media-centre/climate-neutrality .

This latest development compliments the work that the Broker has been undertaking in recent times to assist those of their clients who are interested to understand the positive impact that participants within the (re)insurance industry can have upon the climate. AHJ has successfully introduced a system whereby they can provide an assessment of the respective sustainability credentials of a reinsurance panel, which in turn can then be referenced by companies when they determine who to include amongst their future business partners.

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