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Climate Change Could Prompt Insurers To Drop Business Lines and Alter Investment Portfolios

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By Sara Bussiere
Special Counsel | Global Litigation

By Jayshree Balakrishnan
Associate | Global Litigation

In April 2023, Goldman Sachs Asset Management (GSAM) published its **12th annual insurance survey**, which not surprisingly includes findings that the industry continues to be focused on the potential impact of climate change. GSAM collected responses from 343 Chief Investment Officers and Chief Financial Officers representing more than $13 trillion in global balance sheet assets — approximately half of the global insurance industry. The insurance sectors covered include life, property and casualty/non-life, multi-line and health.

Just over one-third of insurance executives stated that climate change could also affect their ability to insure for extreme weather events. According to the survey, 38% of respondents believe climate change will force them to exit certain business lines and approximately the same proportion expect that price increases in certain lines will be necessary to compensate for extreme weather events. Only 10% said climate change has no impact on the ability to insure for extreme weather events.

As expected, insurance companies in different regions reported different priorities but for those in EMEA and Asia, investment in green and impact bonds is a significant growing trend. Overall, close to 40% of respondents reported currently investing in green and impact bonds. Regionally, all insurers polled in Asia, 99% of those polled in EMEA, and 75% in the Americas said ESG and impact investing are either a primary consideration or one of several considerations.

90% of respondents cited ESG factors and impact investing as a consideration when constructing investment portfolios, driven by a variety of motivating factors, including current or

future regulation, directives from boards of directors, risk mitigation, shareholder/creditor considerations, and customer considerations. But 64% of respondents found that access to reliable, standardized data remains a significant obstacle to taking ESG factors into account in making investment decisions, with 19% citing difficulties in identifying investments aligned with ESG objectives (19%). The industry relies heavily on third-party ESG data sources and scores, such as MSCI and Sustainlytics (66%). The use of scores provided by asset managers (24%) and internal scores (10%) has dropped since 2021.

Commenting on the findings, Valentijn Van Nieuwenhuijzen, Global Head of Sustainability for Public Investing at Goldman Sachs, said: "As ESG is becoming a core component in the portfolio strategy of asset owners, investors are shifting towards more climate aware and inclusive mandates.... In 2023, we expect a further shift towards climate transition and a pivot towards more engagement rather than exclusionary strategies, with ESG factors becoming more refined and further integrated in the portfolio management approach of clients."

Taking the Temperature: In its Staff paper on nature-related risks and impacts for insurance, the European Insurance and Occupational Pensions Authority (EIOPA) observed that the industry is in the early stages of assessing ESG considerations for investment purposes. Going forward, however, the insurance industry could play an important role by supporting activities that reduce the risk of loss of biodiversity through nature-based investment solutions and by offering "nature-aligned" insurance products. EIOPA suggests that insurers can help reduce nature-related impacts through investment and underwriting activities while also mitigating risks to their investment portfolios.

As the GSAM report suggests, climate change considerations are impacting coverage decisions. For example, we have reported that Munich Re, the world's largest reinsurer, announced that, as of April 1, 2023, it would no longer invest in or insure contracts or projects exclusively covering new oil and gas fields, new midstream oil infrastructure and new oil fired power plants. The announcement follows similar moves by Allianz, Swiss Re and Munich Re's syndicate in Lloyd's of London to cease underwriting traditional oil and gas activities.

At the same time, insurers are confronting pressure from "anti-ESG" factions in the U.S. as well as potential regulation. Recently, as we reported, Munich Re, Zurich and Hannover Re separately announced their exits from the Net-Zero Insurance Alliance (NZIA), with Munich Re citing "material antitrust risks" as a reason. Regulators, meanwhile are focusing on financial stability and resilience in the face of climate change. For example, the Bank of England released a report calling for updates to the existing regulatory capital frameworks for banks and insurers; Canada's Office of the Superintendent of Financial Institutions released a new guideline on climate risk management applicable to insurers and financial institutions; and the New York Department of Financial Services has issued guidance for New York domestic insurers on managing the financial risks from climate change.