Industry's progress towards net-zero

Insurance Council of Australia

The Insurance Council of Australia's landmark Climate Change roadmap, 'Towards Net Zero and a Resilient Future', was released in November 2022 and provides a framework for insurers to achieve net-zero by 2030 for their operations, and work towards achieving net-zero across their investments, supply chain and underwriting no later than 2050.

Since the roadmap's launch, Insurance Council members have made substantial progress in implementing its best practice recommendations to set targets and reduce GHG emissions across their operations, investments and supply chains.

The Insurance Council has more than 50 members representing 89 per cent of total premium income written by private sector general insurers, spanning both insurers and reinsurers. Each year the Insurance Council surveys a randomised and anonymised cross section of Insurance Council members, to build a point-in-time snapshot of the ambition and roadblocks on the road to net-zero. This cross section is made up of a mixture of reinsurers and insurers varying in both size and the insurance product offered, from large general insurers focused on home and contents insurance, to specialty insurers focused on lines such as medical indemnity or lenders mortgage insurance. The pool of member responses involved in the survey this year was the Insurance Council's largest to date, representing a total of more than $53 billion in annual GWP.

Barriers to net-zero targets

The primary barriers to setting net-zero targets were identified as ensuring business alignment (29 per cent) and establishing methodologies for measuring and tracking emissions (29 per cent). Additionally, there is a need for education and awareness across all organisational levels to foster understanding and commitment. Over half of respondents indicated that a lack of internal expertise in formulating net-zero targets is a key obstacle in the short to medium term.

To address these challenges, respondents highlighted the ongoing need for accessible data and established methodologies for emissions; as well as a need for increased guidance and education to support informed discussions and effective management of emissions within underwriting portfolios and claims supply chains.

Mandatory climate disclosures: uplift in resources

Australia's mandatory climate disclosure regime will require entities to report on their climate-related risks and opportunities, as well as their emissions, targets and strategies for managing the transition and physical risks associated with climate change.

Under the mandatory climate disclosure regime, 75 per cent of the respondents surveyed are Group 1, 19 per cent Group 2 and 6 per cent Group 3.[1]

The primary barriers cited by respondents when it comes to meeting the requirements of mandatory climate disclosures are largely resourcing and the reliability of emissions data – especially for scope 3 emissions. Difficulties in data collection and methodology pose significant challenges in preparation for assurance requirements. This is especially the case for those yet to align with global standards, with a large uplift in resources required.

In preparation for reporting, 31 per cent of respondents are considering other material issues like nature, and one in five respondents are also preparing to disclose social and governance issues under the EU's Corporate Sustainability Reporting Directive (CSRD). Looking ahead, key guidance sought by general insurers includes transition planning, climate scenario analysis and GHG reporting methodology for scope 3 emissions.

Fifty-six per cent of respondents also indicated that there was an opportunity to engage further at the board level on net-zero strategies and transition risk, particularly as mandatory climate disclosure commences in 2025.

Different approaches to resourcing among insurers operating in global markets

Nearly half of respondents have already been subject to mandatory climate disclosures in other jurisdictions. Insurers that have been subject to mandatory disclosures elsewhere cite a joint responsibility between sustainability, strategy, risk and finance teams to report climate-related disclosures. This collaborative approach is particularly prevalent among insurers with global operations. However, 25 per cent of respondents indicate that their finance departments solely handle climate-related disclosures, while 19 per cent have independent corporate sustainability teams managing reporting.

Sixty-three per cent of respondents have now linked climate-related performance metrics into executive remuneration, which is expected to rise under Australia's mandatory climate disclosure.

1. For detail on Groups under Australia's mandatory climate disclosure regime, see Australian Institute of Company Directors (AICD), A director's guide to mandatory climate reporting 2024.

Pillar 1
Overall ambition

85%
have set targets

85 per cent of respondents have set an organisation-wide net-zero target by 2050, with 50 per cent of respondents having also set interim targets. In comparison, 45 per cent of Fortune 500 companies have reported net-zero plans.[2]

Pillar 2a
Insurer operations

50%
have set targets

50 per cent of respondents have set targets to achieve net-zero emissions across their operations by 2030, while an additional 20 per cent plan to set targets this year.

80 per cent of respondents are implementing low-emission solutions such as improving energy efficiency and sourcing renewable energy, and 32 per cent are introducing strategies to reduce high-carbon purchases. 70 per cent are also developing emissions baselines in an effort track and measure emissions across their operations.

Pillar 2b
Claims supply chain

30%
have set targets

30 per cent of respondents set public net-zero targets for their claims supply chain, with an additional 30 per cent planning to set targets in the next year. More than 50 per cent of respondents are actively engaging with their supply chains to encourage emission reductions efforts, which is essential as mandatory climate disclosure approaches. A lack of consistent methodology by which to measure and then abate emissions across insurers' claims supply chain remains a key challenge; however, a number of respondents noted the value of the work the Insurance Council is progressing in this space.

Pillar 3
Underwriting

40%
have set targets

40 per cent of respondents have set net-zero targets for underwriting portfolios. Feedback indicated that significant barriers persist in this area, such as the absence of established methodologies. However, more than 50 per cent of respondents are actively working on reducing emissions in their underwriting portfolios, by exploring new products and technologies, and assisting emissions-intensive clients with decarbonisation strategies.

Pillar 4
Investments

45%
have set targets

45 per cent of respondents have set net-zero targets for investment portfolios with an additional 10 per cent of respondents planning to set targets in the next year. One-third of respondents are waiting for guidance from the market and/or regulation before setting additional net-zero emissions targets across their investment portfolios. Challenges include investment time horizons, capital requirements and methodologies across key asset classes. 65 per cent of respondents are incorporating climate considerations into investment decisions and almost half of respondents highlighted a shift away from investments in carbon-intensive activities (e.g., coal, gas, oil).

2. Climate Impact Partners (2024) Quiet Climate Action.