Sustainable Insurance Forum

Hosted by

SUPERVISORY THINKING ON INSURANCE-RELATED CLIMATE TRANSITION PLANS

Analysis based on SIF's Transition Plans Working Group (TPWG) Survey, 2024

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About the Report

Transition plans are a relatively new concept for regulated entities and supervisors alike. The United Nations Development Programme's (UNDP) Sustainable Insurance Forum (SIF) undertook a survey where the supervisors shared their best practices and offered insights for the potential role they can play for insurers to embark on their climate transition journeys.

UNDP's SIF report, 'Supervisory Thinking on Insurance-Related Climate Transition Plans' showcases the collected insights on supervisory perspectives regarding transition plans and the progress of transition plan development within their regulated entities. It investigates the potential roles that insurance supervisors can take on as insurers work towards decarbonization. Additionally, it examines the current regulatory landscape, considers the integration of transition plans into a broader risk management framework, highlights the challenges of developing guidance on transition plans, and identifies key components of credible transition plans, among other pertinent aspects.

Overseen by SIF's Transition Plans Working Group (TPWG), chaired by Yann Marin (from Autorité de contrôle resolution et de resolution (ACPR) – France), and with input provided by UNDP SIF members, this report was developed by the SIF Secretariat, specifically Prajwal Baral (Senior Consultant), Florencia Baldi (SIF Strategic Manager), Stephen Nolan (Head of Secretariat), Maurice Wee (Coordinator and Analyst), and edited by Ayesha Babar (Head of Strategic Coordination and Communications). The Secretariat is grateful to the experts involved and to all contributors from institutional partners, especially the TPWG members: Superintendência de Seguros Privados (SUSEP) – Brazil, Office of the Superintendent of Financial Institutions (OSFI) – Canada, European Insurance and Occupational Pensions Authority (EIOPA), Autorité de contrôle prudentiel et de résolution (ACPR) – France, National Insurance Commission – Ghana, Central Bank of Ireland (CBI), International Association of Insurance Supervisors (IAIS), Monetary Authority of Singapore (MAS), South African Reserve Bank, Swiss Financial Market Supervisory Authority (FINMA), the National Association of Insurance Commissioners (NAIC) – USA and the following US States supervisors: California Department of Insurance, Connecticut Insurance Department, Maryland Insurance Administration (MIA), New York State Department of Financial Services (NYDFS) and Washington State Office of the Insurance Commissioner (OIC).

Comments are welcome and can be sent to: sif.secretariat@undp.org

About SIF

Established by the UN with the support of the International Association of Insurance Supervisors (IAIS) in December 2016, UNDP's SIF is a global network of 38 insurance supervisors and regulators, overseeing 92 percent of the global insurance market. This collaborative network aims to address sustainability and climate change issues impacting insurance companies and markets, and policyholders in their jurisdictions. The SIF Secretariat is hosted by the UNDP. The SIF work programme 2023-2024 is supported by the Irish Government.

For more information, please visit www.sustainableinsuranceforum.org

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Executive Summary

Recognising that transition plans are a relatively new concept for regulated entities and supervisors alike, SIF undertook a survey to better understand leading practices among supervisors, and the potential role they can play as insurers embark on their climate transition journeys. Jurisdictions that responded to the survey regulate about 30 percent of global net insurance premium written in 2022[1].

This report sets out the key findings from the survey, including:

1. **Most supervisors are at an early stage of conceptual thinking around insurers' transition plans and transition planning.**
    - 68 percent of the insurance supervisors surveyed consider the formation of transition plans by insurers to be part of the risk management of insurers. However, **87 percent have not set specific requirements or guidance on the development of transition plans by regulated entities**. For several supervisors, the supervision of transition plans is currently not within their mandates and/or they are awaiting international consensus on this area. Many other supervisors consider this area incipient and have said that more time and resources are needed to reach a decision on whether to issue requirements or guidance on transition plans. Despite the absence of explicit expectations on transition plans in some jurisdictions, supervisors acknowledge the potential benefits of transition planning in integrating climate-related risks into governance structures and facilitating insurers' efforts to address sustainability-related challenges.
    - About 30 percent of jurisdictions have a **formal definition of transition plans**. Another 30 percent are either working on or open to having a definition of transition plans in the future, while two supervisors noted that the supervision of transition plans was not within their mandates.
2. **There is considerable ambiguity and complexity in the market, due to a lack of supervisory mandates, defined supervisory approaches, and other supervisory challenges regarding transition plans.**
    - Supervisors' tracking of transition plans at the local insurance industry level remains nascent. They are generally aware that some insurers, especially the larger insurance groups, have developed transition plans, but do not yet have the full picture for the entire insurance industry. One respondent that had tracked such plans among its larger licensed insurers observed that plans at this stage were drafted in an aspirational manner and would need more detail moving forward, as opposed to having detailed metrics, targets and timelines.
    - Most supervisors have not started to **monitor** the implementation of transition plans by their regulated entities, with two supervisors mentioning that such monitoring would likely be beyond their supervisory remit which is focused primarily on safety and soundness. Currently, four supervisors require the **disclosure** of transition plans by their regulated entities, mostly without assurance requirements.
    - Supervisors are at various stages of evaluating the role of transition plans, with initiatives ranging from national strategies to regulatory consultations. A majority (55 percent) of the

1 Computed by author based on data from NAIC, Insurance Information Institute, and Swiss Re Institute.

surveyed supervisors consider the development of **insurance sector specific transition planning requirements or guidance** as the natural next step.

- A fifth of respondents have considered potential legal risks associated with the content communicated in transition plans, while for the others this is not yet a consideration as they have not required insurers to develop and disclose transition plans. Among those who have considered such risks, the need for insurers to be alert to greenwashing and reputational risks arising from delays in meeting commitments or where a transition plan is considered to lack credibility by stakeholders, were the main concerns raised. One supervisor highlighted that the risk of not disclosing transition plans could be greater than the potential legal and reputational risks from the disclosure of transition plans in the face of mounting scrutiny from stakeholders.

- The challenges most cited by supervisors when issuing requirements or guidance on transition plans at this juncture include concerns over the **adequacy, accuracy and accessibility of data. In some cases, available data has not been independently verified. Supervisors also identified capacity and resource constraints** in their agencies and among licensed insurers in climate risk analysis and transition planning. There is also lingering **uncertainty regarding the role and mandate** of financial regulators and supervisors in overseeing transition plans, together with a lack of internationally standardized definitions, best practices, and global guidance on transition plans for different types of financial institutions.

- When asked about how supervisors can support their regulated entities as they transition to a net zero economy, the most frequently cited actions (by over 50 percent of respondents) were: *Providing guidance on metrics, indicators, and methodologies, Providing capacity building on climate risk assessments, transition pathways and scenarios, and Improving availability and access to climate-related data, including information on granular regional and sectoral pathways towards net zero emissions*. About one-third of respondents cited *Requiring the development and implementation of credible transition plans* as a way to support insurers in their transition efforts.

3. **Nonetheless, transition planning-related frameworks and guidance are being developed, which aims to further the development of credible climate transition plans for insurers.**

    - A third of respondents, suggested that key elements of good and credible transition plans include setting clear ambitions, defining strategies, establishing targets, and implementing clear and measurable programs. One respondent mentioned a conscious decision to not be prescriptive at this stage, recognising that the area of transition plans is an evolving space, and that any supervisory guidance will need to be iterative.

4. The following are **recommended next steps** for insurance supervisors:

    a) Where suitable, advocate for an **international baseline and globally consistent guidance** from international standard setters on key features of credible transition plans to improve supervisors' understanding as well as provide consistency and clarity across jurisdictions.

    b) Where appropriate, strengthen the **coordination between authorities** for the implementation of relevant policy directives, and encourage **coordination** among industry stakeholders and international entities to share leading practices and align actions and frameworks, ensuring comprehensive coverage of risks and to limit potential reputational risk for insurers. Supervisors could **maintain ongoing engagements with the private sector** to gather industry responses through stocktakes to assess the coverage, comprehensiveness, and variations in transition plans across entities, and share the results among relevant stakeholders.

c) Based on the supervisor's mandate, **provide regulatory clarity** as applicable on expectations and timeframes for (re)insurers to develop, implement and disclose transition plans (e.g. adopting a definition, providing insights into how they could consider legal risks/implications, or potentially issuing guidance for transition planning)

d) **Help address regulated entities' pressing data challenges:**

   i. **Encourage the inclusion of transition plans in climate disclosures** to improve insurers' climate risks assessments, help close insurance protection gaps, and inform supervisors.

   ii. **Help regulated entities address data-related challenges**, for instance, by engaging with **relevant data providers** that the insurance sector is working/could work with on their climate risk assessments, to understand their underlying assumptions and ensure their credibility.

   iii. Identify the most widely used, robust, transparent and verified targets/tools, to encourage regulated entities to adopt them and raise overall market accountability.

e) **Work together with the insurance sector to pool capacity-building resources**, with a focus on sharing insights from larger and/or first-mover organisations. Address training and capacity building needs, not only on developing robust transition plans and credibly assessing them, but also at a more operational level on ways to integrate climate data into existing operations such as underwriting and claims.

f) Recognize that the drafting and implementation of transition plans will require **appropriate resourcing** from regulated entities and provide specific benchmarks and practical guidance for smaller insurers.

Introduction

The United Nations convened Sustainable Insurance Forum (SIF) established a Transition Plans Working Group (TPWG) in 2023. Composed of 15 SIF members and the Secretariat of the International Association of Insurance Supervisors (IAIS), the TPWG aims to gather inputs on supervisory thinking on transition plans, understand the progress of development of transition plans among regulated entities and study the roles insurance supervisors can play, and any limitations, in fostering and enabling an environment that facilitates insurance companies' contributions to the climate transition. This report builds on the 2023 internal SIF Discussion Paper *Do supervisors have a role in the net zero transition?* based on a 2022 stocktaking survey of 31 SIF members[2].

SIF recognises that transition plans are a relatively new area for regulated entities and supervisors alike. Therefore, a survey – hereafter referred to as 'SIF Survey (2024)'- was conducted, of which 30 SIF members and two non-SIF members from the IAIS CRSG - Climate Risk Steering Group (see Annex I) participated, to gather information on supervisors' current thinking on transition plans, the approaches they have taken or will be taking, and the likely challenges faced when doing so. The objective was to find out how far the regulated entities in each jurisdiction have progressed in their development of transition plans.

Organisations responding to the SIF Survey, (2024) represent 14 percent of IAIS members, and 79 percent of Sustainable Insurance Forum (SIF) membership. These jurisdictions represent about 30 percent of global GDP[3] and regulate about 30 percent of global net insurance premium written in 2022[4].

The results of the SIF Survey, (2024) form the basis of this report, which provides an updated state of play on transition plans in the insurance sector, facilitates the sharing of best practices among supervisors and offers insights into understanding the potential role supervisors can play as insurers embark on their climate transition journeys.

2 At that time, among the 55 percent (i.e., 17) of respondents who had incorporated climate-related risks into their capital frameworks, none had articulated specific proposed measures or requirements targeted at facilitating the net zero transition. Furthermore, 65 percent of these respondents (i.e., 11) indicated that they did not perceive alignment with net-zero objectives as integral to their risk mitigation mandate. Nevertheless, they outlined plans to undertake short-term initiatives and activities over the next 12-18 months aimed at expediting the transition to net-zero within the insurance sector. These initiatives include the development of guidance, participation in conferences and events, creation of tools and methodologies, and analysis of the implementation of such tools.

3 Computed by author based on data from the World Bank and U.S. Bureau of Economic Analysis.

4 Computed by author based on data from NAIC, Insurance Information Institute, and Swiss Re Institute.

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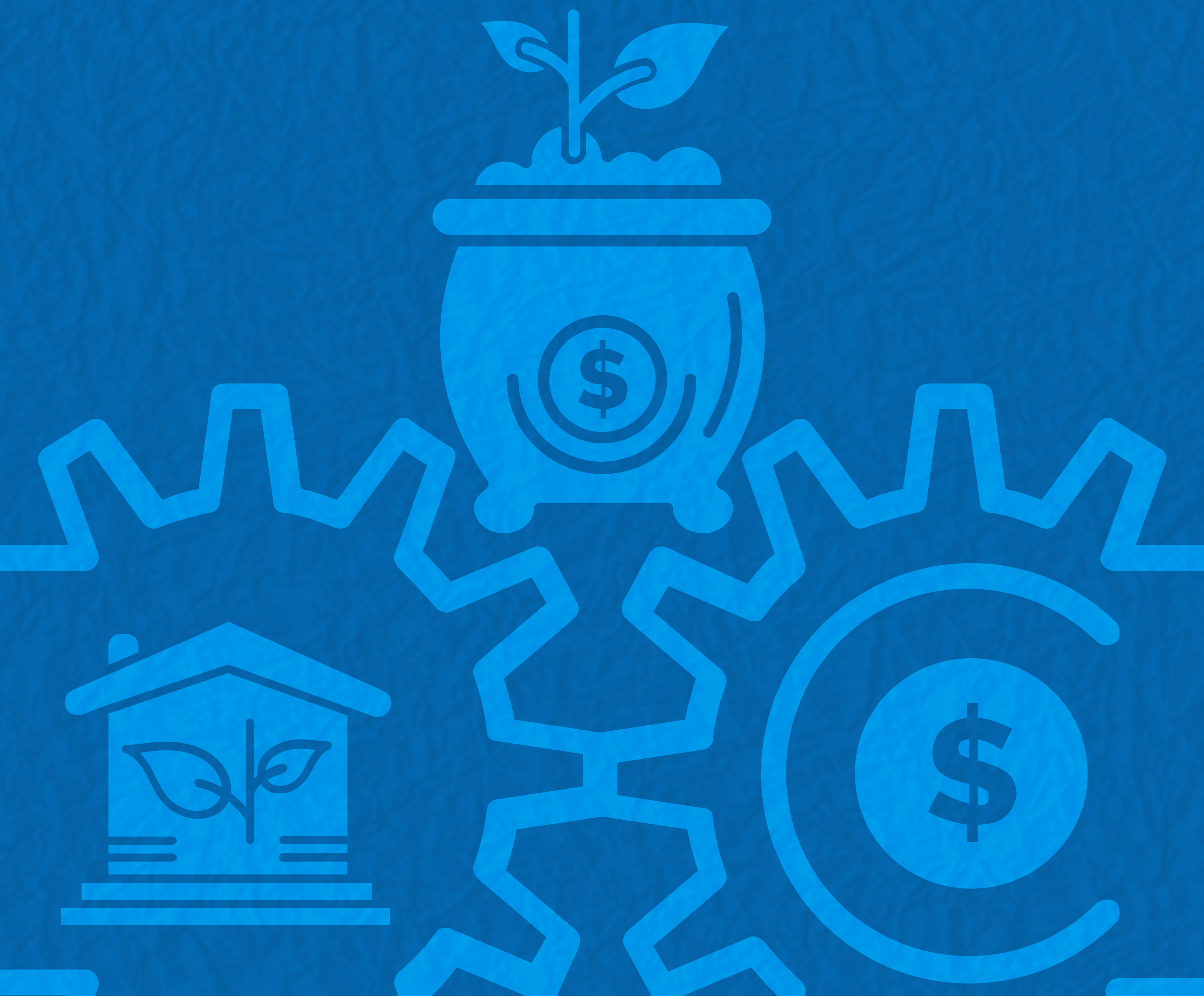
CLIMATE TRANSITION PLANS: REGULATORY STATE OF PLAY



Climate transition plans: regulatory state of play

Typically, climate transition plans outline specific actions, policies, and initiatives aimed at reducing greenhouse gas emissions, transitioning to renewable energy sources, and enhancing resilience to the impacts of climate change. They may be developed on a voluntary basis, either for internal purposes or for communication and commitment to stakeholders. Several jurisdictions have enacted regulations requiring corporates including financial institutions, under specific conditions, to develop such transition plans, for due diligence, and to publish them in accordance with a disclosure framework and/or for supervisory purposes.

The Network for Greening the Financial System (NGFS) has proposed a definition stating that “transition plans articulate an entity’s strategic response to risks and opportunities that emerge due to a system-wide adaptation of the impact of climate change and the transition to a low emission economy”[5]. It is important to acknowledge that there is no internationally accepted definition of climate transition plans at this stage and no expectation for one to be developed in the near future.

Insurance supervisors are still at an early stage of developing regulatory and supervisory guidance on transition planning. This observation is reflected in the results from SIF’s recent (2024) survey, which shows that a third of jurisdictions have published a formal definition of transition plans (see Figure 2 in Chapter 2). Some publicly available definitions from these jurisdictions and international standard setters are listed in Table 1.

Australia	A climate-related transition plan is an aspect of an entity’s overall strategy that lays out the entity’s targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions. [Defined in Australian Accounting Standards Board’s Sustainability Reporting Exposure Draft titled, “Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information, 2023”]
BMA BERMUDA MONETARY AUTHORITY **Bermuda Monetary Authority**	A transition plan sets out actions that insurers plan to take to reduce their emissions across their underwriting, investment, and operational activities to meet their long-term decarbonization targets as well as any interim targets. [Defined in BMA’s Discussion Paper on Disclosure of Climate Change Risks for Commercial Insurers, 2023. This was originally based on TCFD’s definition.]
Office of the Superintendent of Financial Institutions Canada **Canada, Office of the Superintendent of Financial Institutions**	A Climate Transition Plan guides the federally regulated financial institutions (FRFI)’s actions to manage increasing physical risks from climate change, and the risks associated with the transition towards a low-GHG economy in line with its business plan and strategy. [Defined in OSFI’s Guideline on Climate Risk Management, 2023]

5 NGFS: Transition Plan Package, April 2024

European Union	A transition plan for climate change mitigation aims to ensure, through best efforts, compatibility of the business model and of the strategy of the company with the transition to a sustainable economy and with the limiting of global warming to 1,5 C in line with the Paris Agreement and the objective of achieving climate neutrality as established in Regulation (EU) 2021/1119, including its intermediate and 2050 climate neutrality targets, and where relevant, the exposure of the company to coal, oil and gas-related activities. [Article 1 (c) and Article 22 Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence, Directive - EU - 2024/1760 - EN - EUR-Lex (europa.eu)]
IFRS **IFRS S2 Standard**	The IFRS S2 Standard defines a climate-related transition plan as follows: "A climate-related transition plan is an aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions."
New Zealand	An aspect of an entity's overall strategy that describes an entity's targets, including any interim targets, and actions for its transition towards a low-emissions, climate-resilient future. [Defined in Aotearoa New Zealand Climate Standard 1, 2022]
Singapore	Transition planning for insurers refers to the internal strategic planning and risk management processes undertaken to prepare for both risks and potential changes in business models associated with the transition. This includes ensuring resiliency to a range of future states of the world (including varying degrees of physical risk, and potential shifts in policy, technology, or consumer sentiments). "Transition plan" refers to the firm's tangible output of the transition planning process. [Defined in Monetary Authority of Singapore's Consultation Paper on Guidelines on Transition Planning (Insurers), 2023]

Table 1. Selected definitions of transition plan from international standard setters, SIF members, and others.

These definitions demonstrate differences in supervisory thinking on the scope of transition plans and planning. While some exclusively focus on climate mitigation (i.e., reduction of greenhouse gas emissions), others take a balanced view on both climate mitigation and climate adaptation.

Standard setters such as the International Sustainability Standards Board (ISSB) and the IAIS have highlighted the importance of transition planning.[6] This subject has also been the focus of work at international forums, such as the G20[7] and the G7.

6 https://www.iaisweb.org/2023/12/iais-global-insurance-market-report-2023-highlights-key-risks-and-trends-facing-the-global-insurance-sector/
https://www.iaisweb.org/2023/11/iais-launches-public-consultation-on-climate-risk-supervisory-guidance-market-conduct-and-scenario-analysis/

7 Under Indonesia's G20 Presidency in 2022, the G20 Sustainable Finance Working Group (SFWG) produced the G20 Transition Finance Framework which was endorsed by G20 leaders. https://g20sfwg.org/wp-content/uploads/2023/12/TFF-2-pager-digital.pdf G20 New Delhi Leaders' Declaration (2023) has also called for further efforts to advance the G20 Sustainable Finance Roadmap's recommended actions that will scale up the implementation of the Transition Finance Framework. https://g20sfwg.org/wp-content/uploads/2023/09/2023-G20-New-Delhi-Leaders-Declaration.pdf

One of the latest regulatory stocktakes of transition plans in 2023[8] – by the NGFS – highlighted that

> *"the divergence in approaches and the ways in which micro-prudential authorities engage with transition plans appears driven, in part, by the mandates, and the existence, or not, of jurisdiction-specific legislation and requirements to ensure alignment with specific climate outcomes beyond just safety and soundness (e.g., definition of transition plans, requirements for transition plans, whether and how the credibility of those plans is assessed). In some jurisdictions, regulators have specific mandates on climate-related risks, whilst other jurisdictions have an indirect mandate via their support to government policies, or no specific mandate on climate change."*

A later report[9] from the NGFS in 2024 outlines the options for micro-prudential authorities on the use of transition planning and plans, using a building block approach depending on the scope of their respective mandates:

> *"As a foundation, transition planning information of financial institutions can provide important insights to micro-prudential authorities on the institution's strategic approach to addressing climate change and business transformation. Where micro-prudential authorities may be users of available transition plans, rather than regulators requiring financial institutions to develop them, they could engage financial institutions on their transition planning and plans to inform their assessment of the safety and soundness of financial institutions.*
>
> *Depending on mandates, some micro-prudential authorities may also perform supervisory review of the transition planning process and plans. For those authorities, there are several considerations to operationalise an efficient supervision approach, including the implementation of an appropriate review and monitoring approach and ensuring sufficient resource capacity with appropriate knowledge to adequately guide, review, and challenge financial institutions' transition planning process and/or plans."*

Policymakers in several jurisdictions have made some advances in this area. Some of the significant regulatory and supervisory developments, including some not specifically focused on the insurance sector, are listed below.

8 Stocktake on Financial Institutions' Transition Plans and their Relevance to Micro-prudential Authorities (NGFS, 2023) https://www.ngfs.net/sites/default/files/stocktake_on_financial_institutions_transition_plans.pdf

9 NGFS (2024) Credible Transition Plans: The micro-prudential perspective https://www.ngfs.net/sites/default/files/media/2024/04/17/ngfs_credible_transition_plans.pdf

Organization/ Jurisdiction	Most recent developments
International	
FSB FINANCIAL STABILITY BOARD **Financial Stability Board (FSB)**	FSB's Task Force on Climate-Related Financial Disclosures (TCFD) has published its Guidance on Metrics, Targets, and Transition Plans to support preparers in disclosing decision-useful metrics, targets and transition plan information, and linking those disclosures with estimates of financial impacts. The FSB is also setting up a working group that will, as an initial task, develop a conceptual understanding on the relevance of transition plans and planning by financial and non-financial firms for financial stability. FSB's 2024 work plan includes an analysis of the relevance of transition plans for financial stability.
G7 ITALIA 2024 **G7**	In 2023, the G7 highlighted the need for credible transition plans to deliver on corporates' net zero targets.
G20 INDONESIA 2022 **G20**	Under the Indonesian G20 Presidency in 2022, the group agreed on a definition of "transition finance"[10] and created the G20 Transition Finance Framework. This framework is composed of 22 principles across five interrelated Pillars that accommodate different use-cases and acknowledges different jurisdictional frameworks, to help shape policies and financial services to support the climate-related transition and envisioning it will eventually expand to cover other sustainability goals. The G20 Transition Finance Framework Pillars include: 1. **Identification** of transitional activities and investments 2. **Reporting** of information on transition activities and investments 3. Transition-related finance **instruments** 4. Designing **policy measures** 5. Assessing and mitigating **negative social and economic impacts**

10 Definition: "Transition finance refers to financial services supporting the whole-of-economy transition, in the context of the Sustainable Development Goals (SDGs), towards lower and net-zero emissions and climate resilience, in a way aligned with the goals of the Paris Agreement". While transition finance is a distinct concept that specifically focuses on the financial aspect of climate transition, it is critical in providing the necessary funding and resources to implement climate transition plans effectively, and hence any development in this area may signal a corresponding progress in climate transition planning.

International Association of Insurance Supervisors (IAIS)	The IAIS conducted a series of public consultations on climate risk in 2023 and 2024, with the first consultation launched in March 2023[11]. Responses were supportive of including considerations related to transition planning by insurers within the overall climate-related work programme of the IAIS. In response, the IAIS confirmed that it will consider possible future work on the topic.
International Sustainability Standards Board (ISSB)	In June 2023, the ISSB finalized the new IFRS S2 standard, which requires the disclosure of any climate-related transition plan the entity has, including information about key assumptions used by the entity in developing its transition plan, and dependencies on which the entity's transition plan relies.
Network for Greening the Financial System (NGFS)	In 2023, NGFS published a report taking stock of emerging practices relating to climate transition plans.[12] NGFS concluded that there are multiple definitions of transition plans, reflecting their use for different purposes. In addition, the report noted that existing frameworks speak to a mix of objectives, audiences and concerns for transition plans, but predominantly relate to climate-related corporate disclosures; and that transition plans could be a useful source of information for micro-prudential authorities to develop a forward-looking view of whether the risks resulting from an institution's transition strategy are commensurate with its risk management framework. Moving forward, NGFS plans to expand its work to facilitate discussions on how transition plans relate to the mandates, supervisory toolkits, and overall prudential framework of micro prudential authorities. In April 2024, NGFS published its "Transition Plan Package"[13], which included three reports: One which explores the needs and challenges of emerging market and developing economies (EMDEs) related to transition plans, another delving into interlinkages between real economy transition plans and financial institution transition plans, and the other one examining the credibility of financial institutions' transition plans from a micro-prudential perspective.

11 https://www.iaisweb.org/2023/03/public-consultation-on-climate-risk-supervisory-guidance-part-one/

12 https://www.ngfs.net/sites/default/files/stocktake_on_financial_institutions_transition_plans.pdf

13 https://www.ngfs.net/sites/default/files/medias/documents/ngfs_transition_plan_package.pdf

Regional	
European Union	The Solvency II Directive requires that undertakings, as part of their risk management, have strategies, policies, processes, and systems for the identification, measurement, management and monitoring of sustainability risks over the short, medium and long term. EU Member States shall ensure that insurance and reinsurance undertakings develop and monitor the implementation of specific plans, quantifiable targets, and processes to monitor and address the financial risks arising in the short, medium, and long-term from sustainability factors, including those arising from the process of adjustment and transition trends towards the relevant Member States and Union regulatory objectives and legal acts in relation to sustainability factors, in particular those set out in Regulation (EU) 2021/1119 (i.e. the European Climate Law). EIOPA is mandated to draft Regulatory Technical Standards (RTS) for the implementation of these new requirements set in Solvency II, setting minimum standards for the identification, measurement, management and monitoring of sustainability risks and elements to be included in the mentioned plans.[14] In the EU, the Corporate Sustainability Reporting Directive (CSRD)[15] requires the disclosure of information on material impacts, risks and opportunities in relation to environmental, social and governance sustainability matters. It also requires, where applicable, the disclosure of the plans of undertakings, including implementing actions and related financial and investment plans, to ensure that their business models and strategies are compatible with the with the transition to a sustainable economy and with the limiting of global warming to 1,5 °C in line with the Paris Agreement and the EU's 2050 climate neutrality target, as well as, where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities. Large companies are defined in the CSRD as EU companies exceeding at least two of the following three criteria: more than 250 employees on average during the financial year; a balance sheet total in excess of 20 million euros; a net turnover of more than 40 million euros. The Corporate Sustainability Due Diligence Directive (CSDDD)[16] puts down the obligation for companies to adopt and put into effect a transition plan for climate change mitigation which aims to ensure, through best efforts, compatibility of the business model and of the strategy of the company with the transition to a sustainable economy and with the limiting of global warming to 1,5 degrees in line with the Paris Agreement.

14 The European Banking Authority (EBA) received a similar mandate in the revised Capital Requirements Directive, for the elaboration of guidelines on the subject matter.

15 Directive (EU) 2022/2464 of the European Parliament and of the Council [...] as regards corporate sustainability reporting. The CSRD applies to all large companies and all companies with securities listed on EU regulated markets (except micro-companies), including insurers and pension funds.

16 Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence. The CSDDD applies to companies which fulfill one of the following conditions: the company had more than 1 000 employees on average and had a net worldwide turnover of more than EUR 450 000 000 in the last financial year; the company did not reach the thresholds as referred to but is the ultimate parent company of a group that reached those thresholds in the last financial year [...]. It also applies to companies which are formed in accordance with the legislation of a third country, and fulfil one of the following conditions: company generated a net turnover of more than EUR 450 000 000 in the Union in the financial year preceding the last financial year; the company did not reach the threshold as referred to but is the ultimate parent company of a group that on a consolidated basis reached that threshold in the financial year preceding the last financial year [...]. See Article 2.

National	
Australia	The Australian Accounting Standards Board (AASB) released the Exposure Draft ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information to propose climate-related financial disclosure requirements. The draft standard sees transition planning as a component of Strategy and Decision-Making, and entities would be required to disclose a climate-related transition plan where one has been developed, together with the key assumptions used in developing the plan.
Hong Kong Special Administrative Region of China	In 2023, Hong Kong Monetary Authority (HKMA), the region's central banking institution, published a set of principles for banks to prepare for the transition towards a net-zero economy.
Japan	"Basic Guidelines on climate transition finance" were formulated in May 2021 in a collaboration between the Financial Services Agency, the Ministry of Economy, Trade and Industry, and the Ministry of the Environment. In the Basic Guidelines, transition finance does not focus solely on the use of proceeds and KPIs, but rather on the company's "transition strategy" toward decarbonization and the credibility and transparency of implementing that strategy in a comprehensive manner. In 2023, these three bodies published "Transition Finance Follow-up Guidance-Guidance for an effective dialogue with fundraisers" focused on post-execution of transition finance and providing actions of finance entities to promote corporate transitions towards decarbonization and enhance the reliability and effectiveness of transition finance.[17]
Reserve Bank of New Zealand	RBNZ's guidance on managing climate-related risks[18] encourages insurers to begin considering the transition plan aspects of their strategy as early as possible, incorporating both the transition of their customers and of their own business model and strategy.

17 "Formulation of the Transition Finance Follow-up Guidance" https://www.fsa.go.jp/en/news/2023/20230721.html

18 Managing climate-related risks- Guidance for prudentially regulated entities (March 2024) https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/climate/guidance-managing-climate-related-risks.pdf (Page 19)

	Insurers are not obliged to follow this guidance, though the guidance does set out that as the prudential supervisor, RBNZ expects insurers to demonstrate effective management of risks associated with real economy transition. However, insurers with more than $1 billion in total assets under management or annual premium income greater than $250 million are also defined as Climate Reporting Entities (CREs) under New Zealand's mandatory climate-related disclosure legislation. This introduces a mandatory component of transition planning via the standard CREs must disclose against, which is defined by the External Reporting Board (XRB, New Zealand's accounting standard setter) and regulated by the Financial Markets Authority, with RBNZ one of many primary users of the disclosures. The standard requires CREs to disclose the transition plan aspects of their strategy, including how their business model and strategy might change to address their climate-related risks (and opportunities). RBNZ supports these standards and their intentions. CREs may also choose to (but are not obliged to) follow guidance provided by the XRB for developing transition plans. This endorsed guidance highlights that transition plans should consider: 1. Actions rather than dependencies – identifying tangible actions that contribute to achieving the entity's overall strategy, rather than focusing on identifying external factors or events that will need to occur to enable strategic change; 2. Not solely emissions-reduction activities – while incremental emissions reductions over time are important, entities should also include information on resilience and adaptation-related actions; 3. How the plan speaks to, and integrates with, the entity's overall strategy – transition plans should not be standalone but explain what changes to 'business-as-usual' will be required for the entity to survive and thrive long-term; 4. Risk and opportunity focused – transition planning should extend beyond the present-day cost and values of actions, to consider the long-term added-value of transition actions and how they contribute to an adaptive and flexible strategy; Focusing on the entity, with consideration of systemic relationships – transition planning should be focused on tangible, entity-specific actions as well as address interactions and dependencies an entity has with broader systems it operates in.
Singapore	In October 2023, the Monetary Authority of Singapore (MAS) published a Consultation Paper on Guidelines on Transition Planning (Insurers). Its proposed guidelines set out supervisory expectations for insurers to have a sound transition planning process to enable effective climate change mitigation and adaptation measures by their customers, asset managers and investee companies.

Switzerland	According to Article 3 (a) of the new Ordinance on Climate Disclosure passed by the government's Federal Council, companies in scope are required (on a comply or explain basis) to publish a transition plan in accordance with the Swiss climate targets. The ordinance entered into force in January 2024 and companies in scope have to report in 2025 for the financial year 2024. The ordinance is planned to be updated by the end of 2024 with a definition of transition plan requirements for financial institutions that ensure the implementation of the Swiss climate targets.
United Kingdom	In October 2023, the U.K. Transition Plan Taskforce (TPT) published its final guidance on a Disclosure Framework for Transition Plans. This domestic transition plan disclosure framework is ISSB-consistent and draws on GFANZ's[19] common global framework for net zero transition plans. The TPT Disclosure Framework is voluntary. The Financial Conduct Authority (FCA) has indicated intentions to update its climate-related disclosure rules to incorporate the TPT's guidelines.
United States	In September 2023, the U.S. Department of the Treasury released its Net-Zero Finance and Investment Principles, which recognize the importance of transparent net-zero commitments and net-zero transition planning in line with the GFANZ framework. The NAIC recently adopted its first National Climate Resilience Strategy for Insurance creating deliverables to close protection gaps and strengthen climate resilience through pre-disaster mitigation and improved data collection.[20] Further, 27 state insurance departments now participate in the revised Climate Risk Disclosure Survey that aligns with the TCFD guidelines, enhancing transparency about how insurance companies manage climate-related risks and opportunities and incorporating international best practice.

Table 2. Regulatory and supervisory developments in transition planning [Source: Compiled by author from publicly available documents]

19 The Glasgow Financial Alliance for Net Zero (GFANZ) is a global coalition of leading financial institutions committed to accelerating the decarbonization of the economy.

20 NAIC National Climate Resilience Strategy for Insurance

02

SUPERVISORY THINKING ON TRANSITION PLANS FOR THE INSURANCE SECTOR

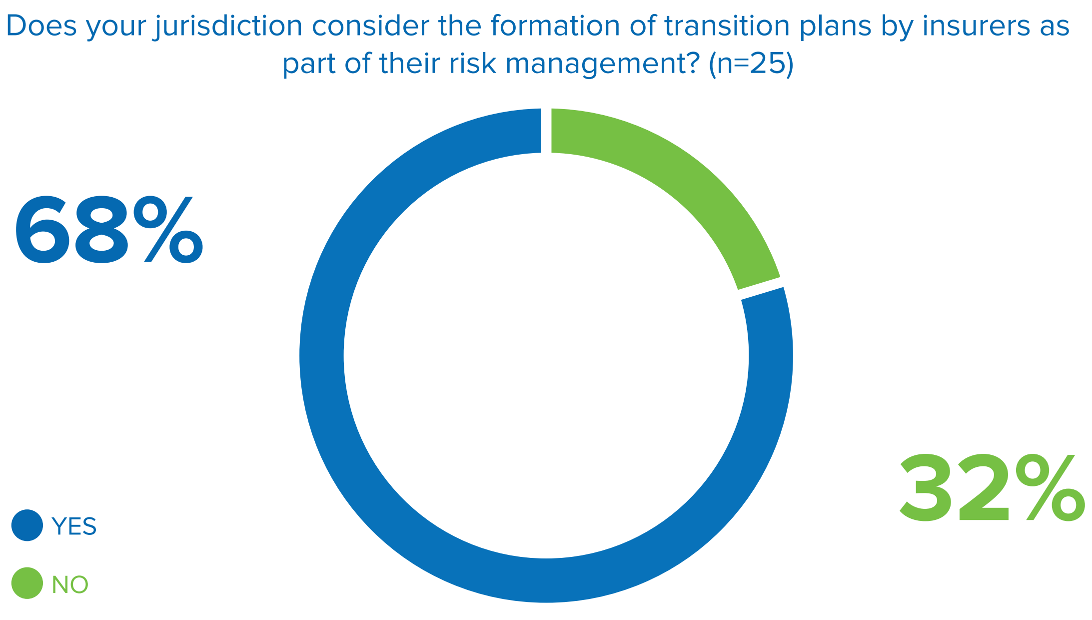
Supervisory thinking on Transition Plans for the insurance sector

With a premium volume of approximately US$6.8 trillion (with non-life business constituting about 60 percent) and over US$35 trillion in assets under management (AuM), (re)insurers are well-positioned to drive change and facilitate the transition to a net-zero and climate-resilient global economy. They can do this by leveraging their roles as risk managers, risk carriers and institutional investors. Insurers have a unique role to play given their specialized expertise in risk assessment and management, which enables them to go beyond conventional sustainability reporting and compliance measures. Through the active promotion of integrated governance, quantifiable outcomes, and comprehensive climate risk management strategies, insurers can distinguish themselves as key drivers of effective climate action within the financial sector.

Consideration of transition plans as part of broader risk management framework

The SIF Survey (2024) found that almost 70 percent of the insurance supervisors who responded to the question consider the formation of transition plans to be part of an insurer's risk management.

Figure 1. Consideration of transition plans as part of risk management [Source: SIF Survey, 2024]



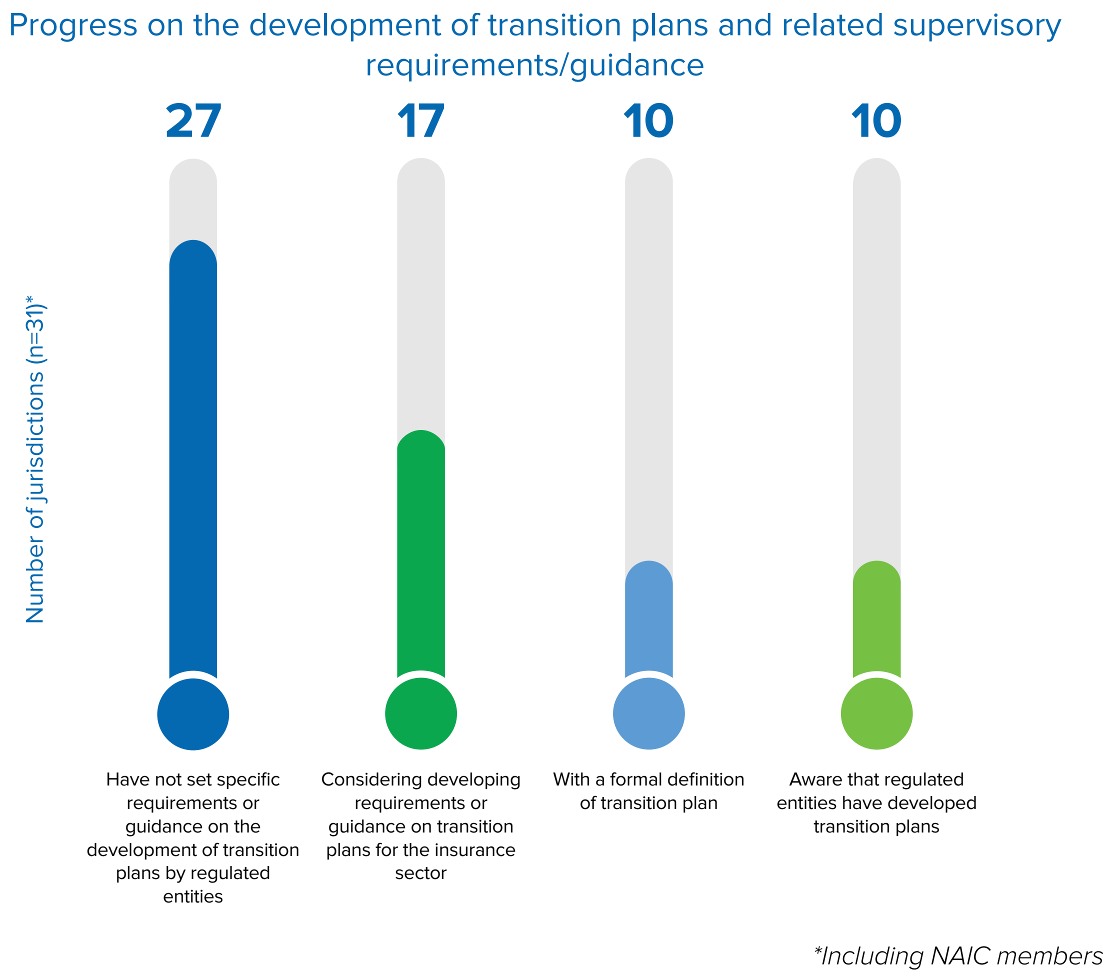
Of the insurance supervisors who consider transition plans to be part of an insurer's risk management, some have set expectations on insurers' management of climate-related risks and the incorporation of such risks into insurers' strategic planning and business strategies, with one supervisor highlighting transition plans as an important tool to manage climate-related risks. For many others, transition plans are not a regulatory requirement, but if an insurer has developed one, they can be used as supplementary tools that provide useful forward-looking information on the firm's strategies, business models, and risk management practices. Despite the absence of explicit requirements in some jurisdictions, supervisors acknowledge the potential benefits of transition plans in integrating climate-related risks into insurers' governance structures and facilitating insurers' efforts to address sustainability-related challenges.

Requirements for insurers to develop transition plans

Despite majority of the survey respondents acknowledging the value of climate transition plans as part of an insurer's risk management, few have set requirements for insurers to develop such plans. The SIF Survey (2024) found that **27 out of 31 jurisdictions (87 percent) have not currently set specific requirements or guidance on the development of transition plans by regulated entities**. Some respondents are still exploring the role of an insurance supervisor with respect to transition plans. Many others consider this area to be incipient, with some still at the early stages of developing guidelines for broader climate-related risk disclosures and/or domestically suited taxonomies. These supervisors will require more guidance and resources before they consider issuing requirements on transition plans. Others prefer to wait for international and/or regional consensus on insurance transition plans (e.g. for the outcome of the Solvency II review which will include transition plans).

In developing requirements or guidance on transition plans, some supervisors consider the inclusion of metrics and targets by insurers in their transition plans to be useful from a prudential perspective, while noting that such metrics may need to be non-prescriptive so that different categories of insurers can use the metrics that are most appropriate for their own transition plans.

Figure 2. Progress on the development of transition plans and related supervisory requirements/guidance [Source: SIF Survey, 2024]



- SIF Survey (2024) shows that **17 out of 31 respondents (55 percent) consider the development of insurance sector specific transition planning requirements or guidance as the natural next step**. Supervisors are at various stages of evaluating the role of transition plans in their supervisory approaches, with initiatives ranging from policymakers' roundtables to develop national strategies on sustainable finance, to regulatory consultations. Some jurisdictions, like New Zealand and Singapore, already have frameworks or proposed guidelines in place that require insurers to develop transition plans or have a transition planning process as part of their risk management and strategy. Other jurisdictions do not currently have specific requirements on transition plans but may request transition plans from the regulated entities that have developed them or have set out requirements for insurers to disclose information related to climate risks and sustainable development.

- SIF Survey (2024) found that about 30 percent of respondents have a formal definition of transition plans in place. Another 30 percent are either working on, open to or consider it likely that they will develop a definition in future. Two supervisors shared that the supervision of transition plans is not within their mandates.

- About 30 percent of respondents are aware that some of their regulated entities, mainly those which are part of larger insurance groups, have developed climate transition plans.[21] Most supervisors do not yet have the full picture for the entire insurance industry in their jurisdictions. This is partly because even if firms have started on the transition planning processes, their finalised transition plans may not be publicly available, or – in words from a respondent - *"a significant portion of the insurance market consists of small to medium sized insurers who may not have the resources and capacity to develop these on their own and may require detailed guidance from the supervisor"*.

- One respondent that had tracked transition plans developed by its larger regulated entities, observed that plans at this stage were often drafted in an aspirational manner and would need more detail moving forward. Another respondent shared it was "in the midst of completing an industry stocktake" and noted that the transition plans that had been developed by some of the larger groups and insurers, varied in the level of detail provided. Most supervisors have not started to monitor the implementation of transition plans by their regulated entities, with one supervisor mentioning that such monitoring would likely be beyond its supervisory remit focused primarily on safety and soundness. Currently, four supervisors require the disclosure of transition plans by their regulated entities (whether in or along with general purpose financial reports), and mostly without assurance requirements. Two supervisors that monitor the disclosure of transition plans by insurers do so as part of their review of the insurers' broader climate-related disclosures.

21 In the words of a respondent "*a small number of our entities have developed high level transition plans, mainly those who are part of large insurance groups*".

Case Study:

NAIC's Climate Risk Disclosure Survey

The NAIC Climate Risk Disclosure Survey has been in place since 2009. It is a risk management tool available for state insurance regulators to request on an annual basis a non-confidential disclosure of the insurer's assessment and management of their climate related risks and was recently aligned with the TCFD framework. States participating in the Survey require insurers licensed to do business in the state and annually writing at least $100 million in direct written premium to complete the Survey. Currently 27 states and the District of Columbia are participating with over 1,300 insurers reporting, representing approximately 85 percent of direct written premium annually in the US. As per the NAIC Climate Risk Disclosure Survey from 2022 (n=1500 insurers), 55 percent total (45 percent for health, 27 percent for life, 91 percent for P&C) of sampled 33 disclosures responded "Yes" to the question "Does the insurer provide products or services to support the transition to a low carbon economy or help customers adapt to climate risk?"

Further, 79 percent in total (73 percent for health, 82 percent for P&C) of the sampled 33 disclosures responded "Yes" to the question "Does the insurer make investments to support the transition to a low carbon economy?"

These statistics are important because the NAIC survey captured approximately 85 percent of the entire U.S. insurance market, and it is encouraging to note that insurers are already offering relevant products and services.

Challenges of issuing requirements and developing guidance on transition plans

As supervisors continue to consider various supervisory approaches to transition plans and planning for the insurance sector, they face diverse challenges in setting mandatory requirements and formulating guidance for their regulated entities. These challenges include concerns over the adequacy, accuracy and accessibility of data, resource constraints, lingering uncertainty regarding their roles and mandates, and the lack of internationally standardised references.

Data Availability and Quality:

- Challenges related to the availability, quality, and comprehensiveness of climate-related data. For example, the lack of comprehensive data provided by smaller corporate customers of insurers, as they may have just started their sustainability journeys.

- Difficulties in ascertaining underlying data quality, especially given nascent audit and assurance practices.

- Limits to the depth and extent of data methodology disclosures by insurers, as some assumptions and data proxies may be embedded within third-party solutions.

Capacity and Resource Constraints:

- Insufficient capacity, skills, and expertise in climate risk analysis and transition planning, both among insurers and supervisors. For supervisors, this includes considerations on the application of the principle of proportionality.
- Additional costs and resources required to implement requirements or develop guidance on transition plans, a concern especially for smaller jurisdictions.

Supervisory Mandate and Policy Coordination:

- Lingering uncertainty regarding the role and mandate of financial regulators and supervisors in overseeing transition plans. Some supervisors highlighted the need for a clear political mandate, as requirements on transition plans may extend beyond existing prudential mandates. Some supervisors have issued statements on development of regulatory policy more broadly.[22]
- Alignment of transition plan supervisory requirements with other important jurisdictional and governmental objectives and ambitions.

Lack of Internationally Standardised References:

- Challenges while navigating numerous and varied international sources of guidance.
- Lack of internationally standardized definitions, best practices, and global guidance on transition plans, complicating recommendations on transition plan content, structure, and metrics.

Alignment and Consistency:

- Challenges in providing sufficient guidance on transition plans so that insurers meet supervisors' prudential risk management expectations, while taking into consideration the different types of transition plans that insurers may be required to produce (e.g. internal, due diligence, disclosure, prudential, etc.), to limit their administrative burden, and without contradicting other existing requirements and guidance.

The above-mentioned challenges are some of the key hurdles faced by supervisors in issuing requirements and guidance on transition plans. Nonetheless, this is an evolving field that is undergoing constant improvements – either in transition related data quality and availability, through the upcoming implementation of the ISSB standards in many jurisdictions, or through increased policy coordination, or through capacity building. These improvements may alleviate many of the concerns and help to facilitate the integration of transition planning and transition plans as appropriate into regulatory frameworks.

Legal risks in transition plans

In 2021, an NGFS report[23] highlighted the increasing trend of climate-related litigation being brought directly against financial institutions, and the inadequate recognition of its impacts by supervisory authorities when assessing climate-related financial risks. The report recommended careful monitoring of these risks by supervisors, to ensure that supervised entities adequately

22 NAIC Members Adopt Statement on ESG

23 Climate-related litigation: Raising awareness about a growing source of risk (2021). https://www.ngfs.net/sites/default/files/medias/documents/climate_related_litigation.pdf

manage financial and operational risks resulting from potential climate-related litigation against themselves as well as institutions which they are exposed to.

The SIF Survey (2024) shows that several supervisors have considered potential legal risks associated with the content communicated in transition plans, while for many others this is not yet a consideration as they have not yet required insurers to develop and disclose transition plans. Among those who have considered such risks, the main concerns raised are the need for insurers to be careful of greenwashing, as well as legal and **reputational risks** in the event that an insurer's transition plan is considered to lack credibility by stakeholders, the transition plan is not implemented properly, or certain commitments are not met in a timely manner.

The following are some examples of legal and reputational risks arising from the disclosure of transition plans being considered by regulators:

- In 2023, the UK TPT published a legal considerations paper[24] focusing on the implications under English law (or EU law where specified) for entities publishing a transition plan and/or making transition plan disclosures in accordance with the TPT Disclosure Framework by reference to two areas: (i) directors' duties and (ii) competition law. The report provided comprehensive guidance on legal aspects relevant to the transition process, ensuring compliance and risk management. Key components may include the transition plans' regulatory compliance, fiduciary responsibility and disclosure requirements of transition plan preparers, contractual obligations that may impact the transition plan, such as agreements with service providers, vendors, or other stakeholders. It also highlights:
    - The relevance of identifying and mitigating legal risks associated with the transition plan, including but not limited to regulatory non-compliance, breach of contract, litigation, and reputational harm;
    - The need for establishing a robust governance framework to oversee the development and implementation of the transition plan, including clear roles, responsibilities, and reporting mechanisms;
    - The establishment of a legal review process: incorporating a systematic legal review process to ensure that the transition plan complies with all applicable legal requirements and is effectively vetted by legal counsel.

In particular, the UK PRA expects firms to have embedded the management of climate-related financial risks and the expectations of SS3/19. Liability risk is one of the climate-related financial risks that they expect firms to manage. The legal risks from climate-related liabilities can be of particular importance to insurance firms given these risks can be transferred through liability protection, such as directors' and officers' professional indemnity insurance. They have also observed some firms considering how climate-related litigation may affect their own organisation. For instance, the firm's own directors' and officers' personal liability.

24 https://transitiontaskforce.net/wp-content/uploads/2023/10/TPT-Legal-considerations-for-transition-plan-preparers.pdf

- MAS' recent consultation paper in 2023 on its proposed Guidelines on Transition Planning[25] recommends that regulated entities evaluate and pay attention to potential environmental risks that might subject them to potential legal or reputational risks.

Greenwashing is also a concern in relation to transition plans. Regulatory bodies worldwide are taking steps to address this issue and mitigate the associated legal and reputational risks.

- In 2022, the Australian Securities and Investments Commission (ASIC) released INFO 271[26] aimed at preventing greenwashing when offering or promoting sustainability-related products. It sets out the current regulatory settings for communications about sustainability-related products and poses nine questions for issuers to consider in order to avoid misleading or deceptive greenwashing practices.

- The European Commission (EC) has asked the three European Supervisory Authorities (EIOPA, EBA, ESMA) to provide advice, for the sectors within their respective remit, on what greenwashing is and its supervision. EIOPA published a progress report on June 2023 and a final report in June 2024.[27] The final report key findings are the following:
    - While insurers reported generally complying with sustainability-related requirements, EIOPA sees room for improvement.
    - While there are data gaps, EIOPA finds that consumers' investments in insurance-based investment products are significantly exposed to investments that have some sustainability features.
    - The is no clear understanding of what is a 'non-life product with sustainability features' as insurers views on this varies.
    - EIOPA noticed an increase in supervisory attention around sustainability-related requirements and greenwashing between 2023 and 2024.
    - There is a lack of common EU approach to supervise sustainability claims. In that context, EIOPA issued in June 2024 an Opinion on sustainability claims. This Opinion sets out a framework designed to assist competent authorities in the monitoring of insurers' adherence to the common principles when making sustainability claims about themselves or their products or schemes. There are four common principles: sustainability claims should be i) accurate, ii) substantiated, iii) understandable and iv) up to date.[28]

- Recently, the IAIS has raised greenwashing in its Draft Application Paper on climate risk market conduct issues in the insurance sector[29], highlighting that insurers' and intermediaries' increased offer of sustainable products could lead to risks when their sustainability claims are either misleading or unsubstantiated, potentially leading to accusations of greenwashing. Its relevance to insurance supervisors has been highlighted:

25 https://www.mas.gov.sg/publications/consultations/2023/consultation-paper-on-guidelines-on-transition-planning-for-insurers

26 Australian Securities & Investments Commission (ASIC). Information Sheet 271. https://asic.gov.au/regulatory-resources/financial-services/how-to-avoid-greenwashing-when-offering-or-promoting-sustainability-related-products/

27 Advice to the European Commission on greenwashing risks and the supervision of sustainable finance policies (europa.eu)

28 Opinion on sustainability claims and greenwashing (europa.eu)

29 IAIS, Draft Application Paper on climate risk market conduct issues in the insurance sector (November 2023). https://www.iaisweb.org/uploads/2023/11/Draft-Application-Paper-on-climate-risk-market-conduct-issues-in-the-insurance-sector.pdf

> *"If not adequately identified, monitored and mitigated, such reputational and legal risks could have a substantial impact beyond individual insurers and intermediaries, affecting the insurance sector and even the economy as a whole. In particular, if customers are misled into buying products with questionable sustainability features, their funds may not be invested in sustainable products, thereby not meeting the consumers' expectations. Furthermore, this type of practice could generate a general loss of confidence in the role the sector can play in financing the transition."*

It goes further to clarify that:

> *"11. Greenwashing is primarily a conduct risk that can result in the unfair treatment of customers. Supervisors should, therefore, consider tools for ensuring that insurers or intermediaries that claim to be sustainable, do so honestly, both before entering into a contract and through to the point at which all obligations under the contract have been satisfied, in line with ICP 19 (Conduct of Business)."*
>
> *"16. These considerations are most relevant for jurisdictions in which insurers or intermediaries publish or make sustainability-related representations about themselves or the products they design and commercialise. It is also worth noting that the suggestions in this paper can apply to both supervisors that do and do not have specific sustainability-related mandates, as most jurisdictions have general requirements that insurers and intermediaries treat consumers in a fair, clear and not misleading manner, which would apply also to sustainability aspects.*

While the disclosure of a transition plan may increase the legal and reputational risks for an insurer, at least one supervisor highlighted that the risk for non-disclosure could be greater than potential legal and reputational risks in the face of mounting scrutiny from stakeholders. These are therefore considerations that insurers should balance in their development and disclosure of transition plans.

Supervisory support to regulated entities

Given the importance for insurers to manage climate-related risks and the unique role they play in the global transition to a net zero economy, there is value in insurance supervisors providing support to their regulated entities in their insurers' journeys towards net zero, including in their development of climate transition plans. These benefits include, but are not limited to:

1. **Systemic risk mitigation:** Climate change and a disorderly transition to a more decarbonised economy pose significant financial risks to the entire financial system. By encouraging well-managed transitions by regulated entities, regulators can better mitigate these risks and ensure financial stability.

2. **Transparency and accountability:** Transition plans provide valuable information about how insurers are managing climate-related risks and meeting their net-zero goals. This information provides supervisors with a means to assess progress, identify potential issues, and hold insurers accountable.

3. **Fostering market efficiency:** Clear supervisory requirements and guidance will help build consistent standards and best practices among insurance transition plans, which will ultimately improve the transparency and comparability of such plans in the insurance sector.

4. **Minimize greenwashing:** Without proper oversight, there is a risk of greenwashing, where entities make misleading claims about their sustainability efforts. Supervisory guidance and requirements help prevent this from happening and ensure credible transition plans.

5. **Levelling the playing field:** Smaller or less resourced insurers may struggle to adequately manage their climate-related risks and develop robust transition plans. Support provided by regulators and supervisors can help insurers, both large and small, in their transition towards net zero.

When asked about ways in which supervisors can support their regulated entities as they transition towards a net zero economy, over half of survey respondents selected the following:

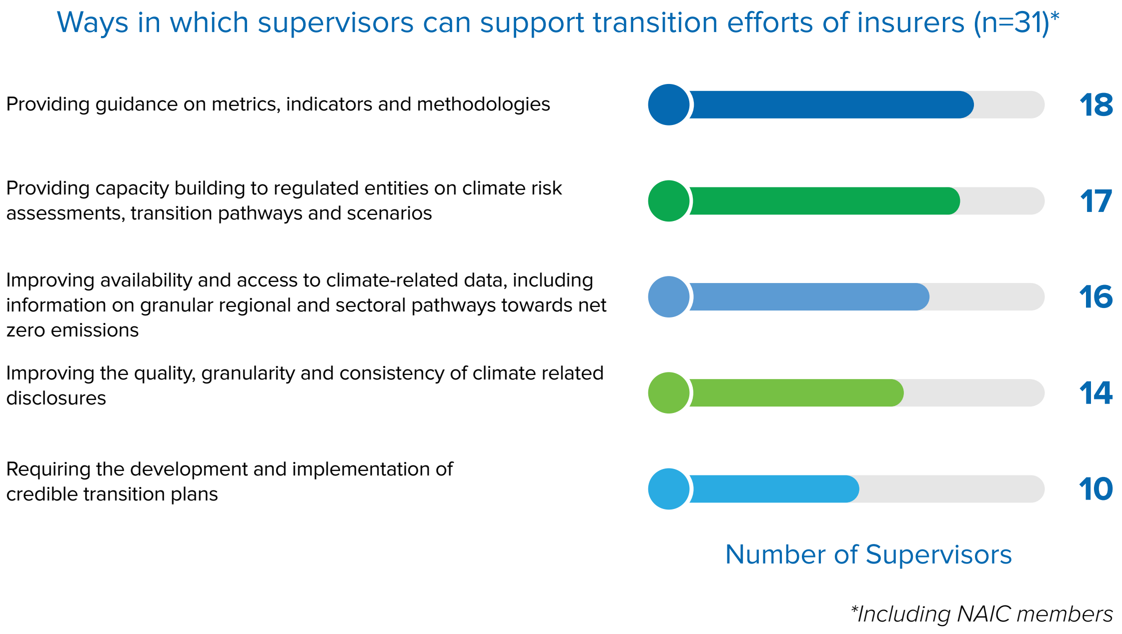
1. Providing **guidance** on metrics, indicators, and methodologies (58 percent).

2. Providing **capacity building** on climate risk assessments (55 percent).

3. Improving availability and access to climate-related data, including information on granular regional and sectoral pathways towards net zero emissions (52 percent).

About one-third of respondents cited “Requiring the development and implementation of credible transition plans” as a way to support insurers in their transition efforts. Figure 3 illustrates the key actions highlighted by survey respondents.

Figure 3. Ways in which supervisors can support transition efforts of insurers [Source: SIF Survey (2024)]



Some supervisors have already been providing or are planning to provide such support to the insurers in their jurisdictions. For example,

- Some of them have been working for several years now on **improving the quality, granularity and consistency of climate-related data and disclosures** (for instance, by recently tasking a government authority to provide recommendations to address key sustainability-related data challenges faced by financial system participants).

- Some have been providing **capacity building** to support climate risk assessments by regulated entities (for example, by disseminating knowledge and tools to help insurers with their climate risk-resiliency efforts, such as releasing a report on scenario analysis and stress testing for insurance regulators in collaboration with universities and conducting educational webinars to highlight climate risks, explain the TCFD guidelines, and support insurers in developing robust TCFD-aligned reports).

- One supervisor is planning to **collect climate-related emissions and exposure data** to enable it to carry out evidence-based policy development, regulation and prudential supervision of climate risk management, which can also potentially inform whether it will implement specific supervisory measures. Others are focused on **strengthening their modelling and stress testing capabilities:** A respondent mentioned they are collaborating with the Global Shield and Global Risk Modelling Alliance (GRMA) to define projects related to modelling disaster-related losses, including climate change risks, and financial solutions to them. Another respondent mentioned that *"A climate change stress testing exercise started for the insurance sector, to monitor the sector to ensure it is internalizing climate change risk and propose ways to prevent against those risks in the future."*

- Those who are working towards publishing guidance on transition plans intend to highlight the resources available for their regulated entities (including insurers) on transition planning, encompassing **metrics, indicators and methodologies for the development and implementation of credible transition plans.**

Elements of a credible transition plan

In recognition of the nascency of climate transition planning and plans, the SIF Survey (2024) asked respondents to provide suggestions on what they might consider to be elements of a credible transition plan. A third of survey respondents suggested some key elements of a good and credible transition plan. A few of the remaining respondents shared that they did not want to be prescriptive at this stage and emphasized the need for supervisory guidance to be iterative and based on ongoing monitoring of industry practices and standards. Some were open to prescribing only high-level elements of transition plans (such as metrics and targets) that are important and useful from a prudential perspective, while keeping the principle of proportionality in mind.

The elements of a credible transition plan identified by the respondents are arranged below under five themes which have been similarly used by GFANZ (check Annex II and III for latest thinking on credible transition plans from the NGFS and GFANZ, respectively).

- **Foundations:** Include clear objectives, consideration of climate science and policy, and alignment with the overall strategy and risk management framework.

- **Implementation Strategy:** Disclose and explain with transparency[30] qualitative and quantitative information about how implementation of the transition plan is expected to affect the regulated entities' financial position over the short-, medium-, and long-term, and clearly outline limitations.

- **Engagement Strategy:** Transition plans should be dynamic, subject to periodic reviews and updates, and rely on stakeholder communications to build trust and demonstrate accountability in the transition process.

- **Metrics and Targets:** Have milestones and interim targets to track progress towards long-term objectives, enabling stakeholders to monitor implementation and performance. Roadmaps can be developed to put processes in place to support fulfilment of goals, which may include incentives, as well as guidance for reporting and monitoring processes.

- **Governance Structures:** Clear roles and responsibilities to oversee, incentivize, and support the implementation of the plan, including decision-making processes, and oversight mechanisms to ensure effective implementation of the transition plan, and also accompanied by disclosure and potentially assurance.

In addition to these, survey respondents also encouraged the consideration of international best practices, frameworks and standards, such as those developed by the TCFD and UK TPT, which can enhance the credibility and effectiveness of transition plans. The elements suggested by the SIF members squarely align with three recent major pieces of work– (1) characteristics and elements of transition plans grouped into the four categories of the TCFD recommendations, as produced in the TCFD Guidance on Metrics, Targets, and Transition Plans (2021)[31]; (2) recommendations and guidance on the components GFANZ believes are essential for a credible net-zero transition plan, as outlined in GFANZ's financial institution net-zero transition plan framework (2022)[32]; and (3) the UK TPT's Disclosure Framework (2023)[33].

This shows that while the transition planning landscape is still emerging, supervisor-led frameworks and guidelines are emerging that aim to shape the development of credible climate transition plans. While there are common elements across these guidance frameworks, such as setting clear ambitions, defining strategies, establishing targets, and implementing clear and measurable programs, there remains an ongoing need for further development and refinement of guidance to ensure the effectiveness and credibility of climate transition plans.

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30 A few members noted that: "As a matter of principle, the transition plans provided for in the revised Solvency 2 directive, which focuses more on risk management, will be mainly confidential, with sensitive information reserved to the supervisor. While some elements will be disclosed (to be specified in EIOPA's Regulatory Technical Standards), the rule remains that of the confidentiality of these plans. Therefore, the principle of transparency cannot apply to all transition plans, or at a minimum not to all the information they contain."

31 TCFD, 2021. Task Force on Climate-related Financial Disclosures Guidance on Metrics, Targets, and Transition Plans. https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf

32 GFANZ, 2022. Financial Institution Net-zero Transition Plans: Fundamentals, Recommendations, and Guidance – Final Report. https://assets.bbhub.io/company/sites/63/2022/09/Recommendations-and-Guidance-on-Financial-Institution-Net-zero-Transition-Plans-November-2022.pdf

33 Transition Plan Taskforce (TPT), 2023. Disclosure Framework. https://transitiontaskforce.net/wp-content/uploads/2023/10/TPT_Disclosure-framework-2023.pdf

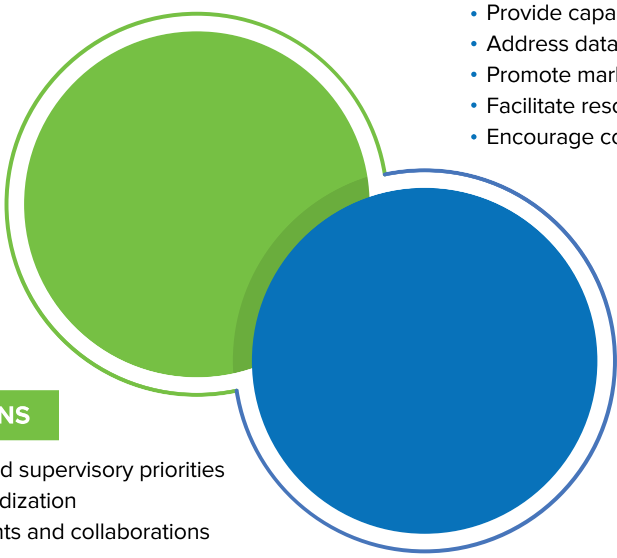
Recommendations on way forward

In the global pursuit of transitioning to a sustainable, low-carbon economy, a collaborative effort involving supervisors, financial institutions, and international organisations is imperative. To navigate this complex landscape effectively, key recommendations for insurance supervisors are outlined from this analysis. They are classified either as external or internal. The "external actions" from supervisors refer to those that support their regulated entities in addressing the above-mentioned challenges related to designing and implementing transition plans, while the "internal actions" focus on further reviewing their own approaches and supervisory thinking towards insurance related transition plans.

Recommendations for supervisors' approach to transition plans:

EXTERNAL ACTIONS

- Provide regulatory clarity
- Provide capacity building
- Address data challenges
- Promote market accountability
- Facilitate resourcing
- Encourage coordination and alignment



INTERNAL ACTIONS

- Explain regulatory and supervisory priorities
- Advocate for standardization
- Enhance engagements and collaborations
- Encourage disclosures

Internal actions:

1. **Explain regulatory and supervisory priorities:** Having and setting a clear policy direction, and where appropriate and/or as possible, to obtain a regulatory or supervisory mandate on the development of transition plans by regulated entities. Guidance from international standard setters or organisations can aid supervisors in this respect, by demonstrating the benefits of regulator and/or supervisor intervention from a prudential perspective as well as outlining practical processes, steps and criteria.

2. **Advocating for standardization:** Advocation for globally consistent guidance on key features of credible transition plans from international standard setters and organisations – including sector-specific pathways to decarbonization. This could encompass a stocktake of public transition plans, regulation/guidance stocktake, and an analysis of key elements of insurance sector transition plans.

3. **Enhancing engagements and collaborations:** Active engagements and collaboration with the private sector to support monitoring of latest market developments and emerging solutions enabling comprehensive and effective supervisory approaches.

4. **Encouraging disclosures:** Supporting the inclusion of transition plans as a major feature in climate disclosures. Supervisors could publish stocktakes of climate disclosures for the benefit of a broad array of stakeholders (including themselves). This would help improve insurers' climate risks assessments, ensure a healthy insurance market, and close insurance protection gaps.

External actions:

1. **Based on the supervisor's mandate, providing regulatory clarity:** Regulators could provide clear guidance and offer clarity as applicable on expectations and timeframes for (re)insurers to develop, implement and disclose transition plans, potentially issue guidance and/or specify requirements for transition planning, providing principles-based guidance and considering tools such as climate scenario analysis and stress testing.

2. **Providing comprehensive capacity-building resources** for the insurance sector, with a focus on sharing insights from larger and/or first-mover organisations and addressing regulated entities' training and capacity building needs, not only on developing robust transition plans and credibly assessing them, but also at a more operational level on ways to integrate climate data into existing operations such as underwriting and claims. This is especially so for the smaller players, where specialised expertise is needed to kickstart the transition planning journey.

3. **Addressing data challenges:**

    a. Collaborate closely with regulated entities to refine their **understanding of the indirect risks associated with counterparties.** This involves aligning with projections from corporate transition plans and recognizing their sectoral exposures, thereby enhancing their strategy.

    b. Encouraging corporates and insurers to **disclose climate and sustainability-related financial information** along with their contributions to sustainable development where available, aids regulated entities in **comprehending the associated opportunities, challenges, and risks.**

    c. Furthermore, engaging with **relevant data providers** that the insurance sector collaborates with or can potentially work with to obtain high-quality data for climate risk assessments, is crucial to understanding the underlying assumptions and ensuring their credibility.

4. **Promoting Market Accountability:** Summarize or approve a subset of transition plans most widely used, robust, transparent and verified tools, to encourage regulated entities to adopt them and raise overall market accountability. Also, continuously ask, identify and help address both general and jurisdiction-specific challenges faced by regulated entities, such as difficulties in selecting the most suitable practices/targets/metrics, or lack of data quality assurance practices.

5. **Facilitating Resourcing:** Recognize that the drafting and implementation of transition plans will require appropriate resourcing from regulated entities, and therefore provide specific benchmarks and practical guidance for smaller insurers with limited resources to develop tailored transition plans.

6. **Encouraging Coordination and Alignment among stakeholders:** Align actions and frameworks, avoiding fragmented policy approaches and inconsistencies, ensuring comprehensive coverage of risks and supporting insurers in limiting potential reputational risk from non-credible or poorly implemented transition plans. This could include gathering industry responses through surveys or stocktakes to assess the coverage, comprehensiveness, and variations in transition plans across entities, and share the results among supervisors and relevant stakeholders.

Next Steps:

These recommendations concur with the recent conclusion of the NGFS Transition Plans' Package, that to support the global adoption of transition plans, there could be

1) Better integrated international guidance:

Given the incipient stage of guidance for transition plans among insurance regulators and supervisors, the development of a comprehensive and integrated set of guidance to bring about alignment across disparate international frameworks and foster consistency in the approach to transition plans within the insurance industry will be useful. For example, a principles-based approach, which would allow flexibility for (re)insurers to tailor their plans to specific circumstances while ensuring transparency and accountability. This involves providing guidance on tools, metrics, indicators, methodologies and definitions to ensure credibility and consistency. Regulated entities should be directed to utilize forward-looking risk assessment tools such as climate scenario analysis and stress testing to better understand the potential impact of climate-related risks and opportunities under varying scenarios. Such an effort would help enhance the effectiveness and harmonization of transition planning practices, ultimately strengthening the industry's resilience to climate-related risks and promoting sustainable development goals.

This comprehensive approach could involve an initial stocktake and analysis, including:

a. A **stocktake of public transition plans:** Sharing data of these plans, and details about the companies releasing them, including their geographic locations, sizes, and types of business.

b. A **regulation/guidance stocktake:** A classification and analysis of existing requirements/ guidance issued by different jurisdictions.

c. An analysis of **key elements of insurance sector specific transition plans** (i.e. different from the G20 SFWG stocktake, which encompasses other types of financial institutions beyond insurers): How these relate to risk management, among others.

2) More holistic transition plans and processes:

Regulators and supervisors should adopt a comprehensive approach that integrates both the transition and physical aspects of climate change, while also considering the ongoing loss of nature. By incorporating these considerations into strategy and risk management-oriented plans and processes, supervisors can ensure that regulated entities are equipped to effectively navigate the complexities of climate-related challenges. This proactive stance enables supervisors to promote resilience within the insurance sector, mitigate potential risks, and facilitate the alignment of industry practices with sustainable and responsible environmental stewardship.

Given the potential legal implications of transition plans, legal risks associated with both its public disclosure and continuous implementation should be appropriately considered by both supervisors and their regulated entities. Particularly those risks regarding compliance with relevant laws and regulations, and the evaluation of the negative impact that legal issues could eventually have on policyholders as well.

Additionally, supervisors could use existing disclosures as sources of information to better their understanding of insurers' transition strategies. Comprehensive climate risk disclosures can provide them with an annual snapshot of the insurance sector, informing data collections, scenario analysis and filling remaining data gaps where they may exist. When appropriate as per regulator's mandate, fostering robust disclosures can simultaneously inform transition plan related policy-formulation.

3) **Creating conducive conditions for adopting transition plans:**
Regulators and supervisors should offer clarity about policy directions, such as jurisdictional climate frameworks, and establishing economy-wide incentives for the development and disclosure of transition plans. This proactive approach not only fosters alignment with jurisdictional climate objectives but also enhances the industry's resilience to climate-related risks, ultimately contributing to a more sustainable and secure future. Such approaches include:

a. Within the remit of each jurisdiction's supervisory mandate, establishing robust **governance structures and accountability mechanisms** to oversee the implementation of transition plans. This includes defining clear objectives, targets, milestones, and regular review processes ensuring that transition plans are realistic, achievable, and not merely tick-box exercises. Also, per each jurisdiction's supervisory mandate, supervisors should consider continuous or periodic monitoring of the implementation of transition plans. The monitoring should ensure the transition plans' evolution in line with changing climate risks and regulatory expectations, with a particular focus on addressing challenges such as data availability, quality, and quantification methodologies.

b. Implementing guidelines in phases, with larger re(insurers) expected to comply first, followed by smaller ones, and publicly establishing/endorsing/adopting a formal definition of transition plans to enable better communication, harmonization, and progress tracking. It is also essential to differentiate between transition plans and prudential transition plans, with the latter focusing specifically on prudential aspects falling under the purview of supervisory authorities.

c. Recognizing resource challenges (i.e. that transition plans may require system enhancements and additional procedures which require additional human and financial resources) and that less profitable/smaller firms not only are more vulnerable to climate risks, but also and have a natural incentive to avoid investing heavily into transition plans. This resource challenge should be recognized throughout all the other recommended actions (e.g. when providing training, regulators should acknowledge the length of the workshops could further harm operational tasks in smaller insurance firms, that those firms prefer low-cost and/or open-source datasets and models and tools, etc.).

   By implementing these actions, the industry can create an environment conducive to the effective adoption and implementation of transition plans, ultimately enhancing its resilience to climate-related risks and promoting sustainable development.

Annex I. List of supervisory bodies who participated in the survey

SIF Members		
	Jurisdiction	**Supervisory Body**
1	Argentina	Superintendencia de Seguros de la Nacion (SSN)
2	Australia	Australian Prudential Regulatory Authority (APRA)
3	Belgium	National Bank of Belgium (NBB)
4	Bermuda	Bermuda Monetary Authority (BMA)
5	Brazil*	Superintendência de Seguros Privados (SUSEP)
6	Canada*	Office of the Superintendent of Financial Institutions (OSFI)
7	Costa Rica	Superintendencia General de Seguros de Costa Rica (SUGESE)
8	Finland	Finnish Financial Supervisory Authority (FIN-FSA)
9	France*	Autorité de contrôle prudentiel et de résolution (ACPR)
10	Ghana*	National Insurance Commission (NIC)
11	Guernsey	Guernsey Financial Services Commission (GFSC)
12	Ireland*	Central Bank of Ireland (CBI)
13	Isle of Man	Isle of Man Financial Services Authority
14	Japan	Financial Services Agency (FSA)
15	Netherlands	De Nederlandsche Bank (DNB)
16	New Zealand	Reserve Bank of New Zealand (RBNZ)
17	Singapore*	Monetary Authority of Singapore (MAS)
18	South Africa*	Prudential Authority (PA)
19	Switzerland*	Swiss Financial Market Supervisory Authority FINMA
20	UAE	Central Bank of the UAE (CBUAE)
21	UK	Bank of England

22	USA – NAIC *	National Association of Insurance Commissioners (NAIC)
23	USA – California*	California Department of Insurance
24	USA – Connecticut*	Connecticut Insurance Dept.
25	USA – Illinois	Illinois Department of Insurance
26	USA – Maryland*	Maryland Insurance Administration (MIA)
27	USA – Massachusetts	Massachusetts Division of Insurance
28	USA – New York*	New York State Department of Financial Services (NYDFS)
29	USA – Vermont	Department of Financial Regulation
30	USA – Washington*	Washington State Office of the Insurance Commissioner (OIC)
Non-SIF Members (Members of IAIS Climate Risk Steering Group)		
31	Hong Kong Special Administrative Region of China	Insurance Authority (IA)
32	Chinese Taipei	Financial Supervisory Commission

*These are also members of SIF's Transition Plans Working Group (TPWG).

Annex II. NGFS's views on credible transition plans

The stocktake report on the subject by the NGFS (2023)[34] also delved into the question of "credibility" of corporates' transition plans, highlighting that for financial regulators, it can minimise the risk of greenwashing, including enabling micro-prudential authorities to place reliance on the information and the implications for the financial risks that a financial institution faces.[35] Meanwhile, it identified key elements from transition plans that are relevant to assessing safety and soundness, namely:

1) A scientifically aligned, **long-term goal** to significantly mitigate the worst impacts of climate change, supported by a credible trajectory (such as a Paris-aligned goal of net zero by no later than 2050).

2) A clear approach to **align business activities to the stated target** that should drive in GHG emissions reductions.

3) Robust **governance, accountability and remuneration frameworks** for the delivery of the plan, incorporating both short and long-term deliverables and milestones.

4) The application of an **"emissions budget"** which sets an absolute cap on total emissions over the life of the transition plan.

5) **Shorter term, achievable milestones** that are aligned to progressive fulfilment of long-term net zero goals which provide check points for the plan and enables refinements and modifications in light of updated data and scientific methods emerging over time.

6) **Measurable and verifiable deliverables** and **engagement strategy** primarily focused on supporting the reduction of real-world emissions. Metrics that adequately capture all material sources of emissions and disclosed in a meaningful way to stakeholders.

7) **Transparency of the risks, challenges, dependencies, and assumptions for implementation** – such as technological barriers, political risks, business risks, and shareholder pressures – and possible mitigants to these hurdles.

8) **Assessment of how influencing initiatives are consistent with a net zero goal**, particularly for activities that are highly vulnerable to the perception of "greenwashing" such as political contributions, government lobbying, research activities, marketing, education, disclosures, and response to shareholder proposals.

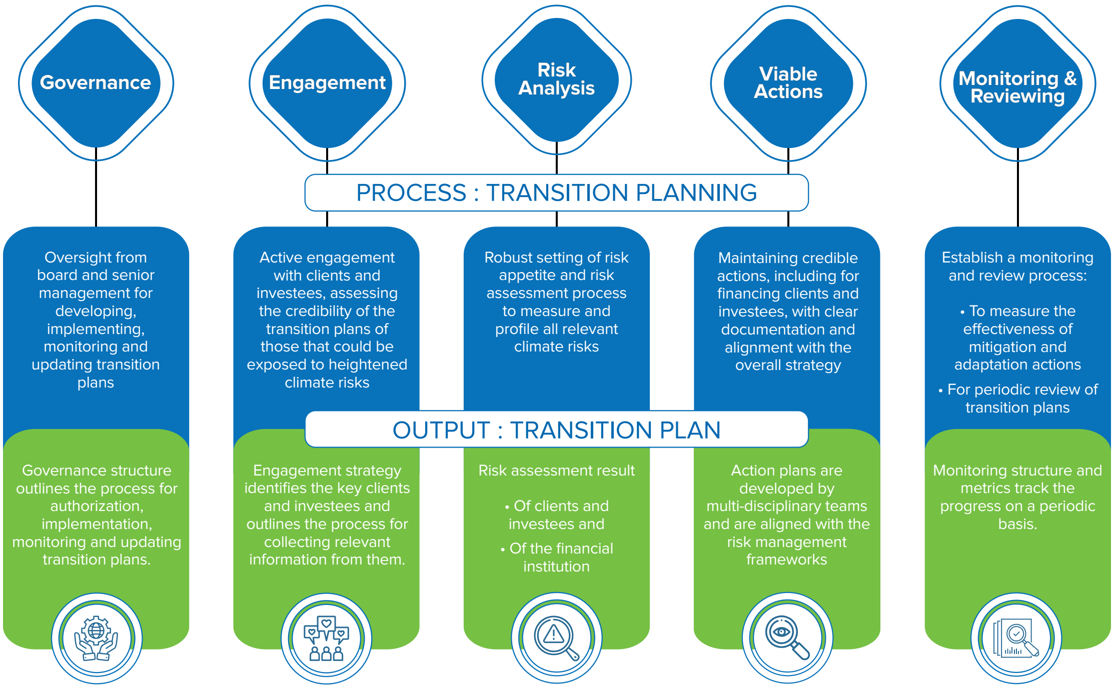
The latest NGFS publication on the subject (2024)[36] outlines proposed elements of credible transition planning and plans from a micro-prudential perspective. The proposed elements are summarized in the following chart and include the elements of Governance, Engagement, Risk Analysis, Viable Actions, and Monitoring and Reviewing. While the left column contains actions and processes related to transition planning, the right column contains means and practices to describe the former in an outward-facing publication, or a transition plan, when they are appropriate for disclosure.

34 https://www.ngfs.net/sites/default/files/stocktake_on_financial_institutions_transition_plans.pdf

35 The NGFS states that: *"At present, micro-prudential authorities do not have the appropriate resources or skills to make these assessments and provide the rigorous challenge required. Being tasked with this assessment would require significant capacity building. Furthermore, the above definition is founded on the need to minimise greenwashing risks, which can be outside some microprudential authorities' remit (…) There may be other actors who could prove better placed to assess the credibility of transition plans of financial and non-financial firms at a lower cost, and whose assessments can then be used by micro-prudential authorities."*

36 NGFS (2024) Credible Transition Plans: The micro-prudential perspective https://www.ngfs.net/sites/default/files/media/2024/04/17/ngfs_credible_transition_plans.pdf

Figure 4. Overview of the proposed elements of credible transition planning and plans that are relevant to micro-prudential supervisors [Sourced from NGFS Credible Transition Plans: The micro-prudential perspective, 2024]



Annex III. GFANZ and TPT insights on credible transition plans highlighted by SIF survey participants

Key elements set out by GFANZ and drawn on by TPT	Elements of transition plans identified by SIF survey participants
Foundations (An articulation of the organization's overall approach to net zero across the four key financing strategies)	**Clear Objectives:** Plans should articulate specific goals and objectives related to sustainability, climate risk management, national decarbonization plans, and national transition pathways.
	Integration with Overall Strategy: Plans should be aligned with the organization's broader business model, strategy, and risk management framework to ensure coherence and effectiveness in achieving sustainability objectives.
	Consideration of Climate Science and Policy: Plans should be informed by scientific consensus on climate change and aligned with relevant national and international climate policy frameworks, such as the Paris Agreement targets.
	Risk Management and Adaptation: Plans should have a comprehensive coverage of risks, including physical and transition risks, and the integration of adaptation measures to enhance resilience against climate-related impacts.
	Holistic Scope: Plans should cover all relevant business activities, including underwriting, investments, operations, and supply chains, to address the full spectrum of climate-related risks and opportunities.
Implementation Strategy (A strategy to align business activities, products, services, and policies with net-zero objectives)	**Transparency and Disclosure:** Plans should disclose qualitative and quantitative information about how their implementation is expected to affect the regulated entities' financial position over the short-, medium-, and long-term, and transparently outline limitations.
Engagement Strategy (A strategy to engage with external stakeholders in support of the net-zero objectives)	**Regular Review and Updates:** Plans should be dynamic documents subject to periodic review and updates to reflect evolving circumstances, emerging risks, and changing regulatory requirements.
	Stakeholder Communication: Plans should ensure transparency and engagement with stakeholders, including investors, regulators, customers, and communities, which are crucial for building trust and demonstrating accountability in the transition process.

Metrics & Targets (A suite of metrics and targets to assess and monitor progress towards the net-zero objectives)	**Milestones and Interim Targets:** Plans should include intermediate milestones and targets to track progress towards long-term objectives, enabling stakeholders to monitor implementation and performance.
	Roadmap: Roadmap should be developed to put processes in place to support fulfilment of interim and end goals, which may include behaviour alignment measures like incentives, as well as processes to monitor and report progress (including in relation to risk management, mitigation, adaptation). The roadmap should also include steps to steward clients to transition in accordance with credible (preferably Paris-aligned) transition pathways.
Governance (A set of structures to oversee, incentivize, and support the implementation of the plan)	**Governance Structure:** A robust governance framework is essential, including clear roles and responsibilities, decision-making processes, and oversight mechanisms to ensure effective implementation of the transition plan, and also accompanied by disclosure and potentially assurance.

Table 3. Elements of a good/credible transition plan as identified by GFANZ and highlighted by some SIF Survey respondents.

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