INSURERS FOR PURPOSE

PENSIONS FOR PURPOSE

NOVEMBER 2025

Navigating sustainability integration across the insurance sector

Federated Hermes | Fidelity International | Gresham House | Mercer | SAIL Investments | SOLAS CAPITAL

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Pensions for Purpose

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Executive summary

The publication of the *Prudential Regulation Authority* (*PRA*)'s consultation paper CP10/25 exemplifies the increasing regulatory focus on climate risk for insurers, reflecting growing expectations that firms must go beyond short-term financial management to demonstrate how they are assessing and addressing long-term risks linked to climate change. What was once treated as a matter of reputation is now widely recognised as a material financial and strategic issue, influencing investment decisions, underwriting practices and risk management across the industry.

This report, developed by *Pensions for Purpose* and commissioned by *Federated Hermes, Fidelity International, Gresham House, Mercer, SAIL Investments* and *Solas Capital*, explores where insurers currently stand on their sustainability journey; assesses how insurers are embedding sustainability objectives across governance, culture, investment and risk frameworks; and examines the structural, regulatory and challenges shaping progress.

Our interviews highlighted regulation as a powerful catalyst for progress. Yet, regulation is not the only driver: insurers are increasingly viewing sustainability as a material financial risk with direct implications for investment returns, portfolio resilience and underwriting profitability. On the investment side, environmental, social and governance (ESG) considerations are now inseparable from risk management, with scenario analysis commonly used to safeguard long-term performance. Underwriting integration is at an earlier stage but is advancing, particularly in property and catastrophe lines, where physical risk modelling is starting to inform pricing and coverage. Opportunities are also emerging in renewables, green technologies and mobility solutions, underlining that sustainability is becoming a core driver of both risk management and growth strategy.

Insights were drawn from 20 30-minute face-to-face interviews covering a broad range of segments including life, commercial, savings, mutual societies, reinsurance, annuities and group insurance.

Across the spectrum of capital, investment approaches differ in how they balance financial returns with the intentionality of social or environmental outcomes. Traditional, responsible, sustainable and impact investing seek financial returns, but differ in purpose and approach. Traditional investing focuses solely on maximising profit, while responsible investing aims to avoid harm by excluding unethical sectors. Sustainable investing actively integrates ESG factors to support long-term value creation, and impact investing goes further by intentionally pursuing measurable positive outcomes alongside financial returns. Philanthropy, by contrast, prioritises impact alone, accepting below-market or no returns in pursuit of maximum social or environmental benefit.

Key findings

I. Insurance companies are broadly positioned as 'responsible investors'. Most remain focused on screening out or excluding certain sectors, rather than actively investing to generate positive impact, though there are some exceptions.

II. Larger companies have more resources to build bigger teams and expand their sustainability efforts, whereas smaller teams, despite their commitment, have faced challenges keeping up with the rapidly evolving regulatory landscape.

III. The ESG pushback in the US is not expected to affect the progress UK insurance companies have made. However, the backlash has influenced terminology: some are avoiding the term 'ESG' and instead using 'responsible' or 'sustainable'.

IV. Historically developed separately, underwriting and investment strategies are now moving towards unified, organisation-wide climate approaches to ensure consistent scenarios and language. However, the integration of sustainability considerations on the investment side are generally more mature, while underwriting is still developing.

V. Climate is the top priority: in investments, it is applied through stress tests, *Taskforce on Climate-related Financial Disclosure* (*TCFD*) reporting, risk registers, stewardship, engagement and, in more advanced firms, through allocations to transition assets and Article 8/9 funds.

VI. Insurers seek clear, principles-based guidance from regulators, including clarity on fiduciary duty, incentives for transition investments, reduction of reporting burdens, actionable scenario insights and consistent benchmarking, all of which would help translate sustainability ambitions into effective investment practice.

Introduction

As risk carriers, risk managers and institutional investors, insurance firms have long been at the forefront of identifying, understanding and quantifying global risks. However, the pattern of emerging risks is shifting rapidly. According to the *World Economic Forum* (*WEF*), five of the top 10 global risks over the next 10 years are environmental, including extreme weather, biodiversity loss and natural resource shortages. The *WEF* highlights the short-term outlook is largely unsettled, marked by moderate instability and risk of global catastrophes, while the long-term outlook points to turbulence[1]. It is a complex and challenging environment for the industry. The impact of individual environmental, social and governance (ESG) factors naturally differs across insurance lines, though, as highlighted in this report, most firms focus on climate, given its potential effects across various segments, including property, health and life.

We conducted interviews with 20 UK insurance companies to examine their sustainability practices and ambitions, and how these considerations are integrated across business functions, particularly underwriting and investment. Given the industry's extensive experience in risk management and the fact insurers held approximately £2tn in assets under management[2] in the UK alone in 2022, the scale of their potential influence on systemic risks is clear.

The ability of assessing ESG factors is also crucial for ensuring the industry continues to create, rather than destroy, value. Value destruction occurs when the usual sequence of discovering, quantifying, mitigating and then transferring risk is disrupted. In such cases, risk is transferred based on limited knowledge and it is only later discovered that its magnitude differs from that used in underwriting. Legacy risks, arising from the reinterpretation of old policies, remain substantial, particularly given the evolving regulatory landscape around climate. This includes potential claims from new litigation theories not anticipated at the time of underwriting[3].

The complexity of these emerging risks highlights the importance of education. With this in mind, we open this report by providing an overview of how insurance firms classify their level of sustainability literacy. ESG factors often run counter to how the industry has traditionally operated, since the analysis of factors such as climate change and biodiversity loss is mainly forward-looking. Well-established frameworks, such as the *Taskforce on Climate-related Financial Disclosure*, have been important for guiding insurers, although challenges remain in making these frameworks fully decision-useful.

Another key question we will explore is whether sustainability integration is consistent across different departments of insurance companies. Our research indicates insurers are generally advanced in assessing ESG performance through the investment side, mainly due to robust risk management processes already in place, but ESG considerations are less developed on the underwriting side. There is notable diversity among insurers in how far they have integrated sustainability. Overall, however, firms tend to fall within the 'responsible investment' part of the spectrum, applying exclusions and screening out companies with poor governance, but not yet allocating capital with the explicit goal of generating positive social or environmental impact alongside financial returns.

Finally, both the literature and our industry conversations highlight the need for enhanced dialogue among insurers and with broader stakeholders on ESG factors. This research aims to understand where the industry currently sits in terms of sustainability practices, where it wants to go and what types of support are needed, both from regulators and through voluntary initiatives.

01

Setting the scene

01

Setting the scene

To understand where the industry stands on sustainability, we gathered a well-balanced representation of interviewees across the life and non-life insurance segments. To open this report, we will outline some of the key themes that emerged, covering the common challenges firms face and the capabilities they view as essential to advance their sustainability journey.

ESG backlash

The recent environmental, social and governance (ESG) backlash in the US came up several times during conversations with insurers. Their views were unanimous: it will not affect their sustainability pathway, as ESG and sustainability considerations are core components of the risk management process that insurance companies must undertake. What it has influenced, however, is their use of terminology:

"The backlash against ESG in the US hasn't changed our approach, only the language we use. Much of the debate is about terminology. At its core, ESG is risk management and, in insurance, not considering these factors would itself be a risk. Rather than talking about 'ESG screening,' we frame it in terms of sustainability and viability. Governance has always been central to our investment process and, over time, we've expanded into other areas. The approach is the same; it's just the terminology that has shifted."

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Leadership buy-in is essential for insurance companies to progress on sustainability integration

According to insurance firms, their literacy on sustainability-related topics has evolved considerably over the past decade. Leadership teams across the companies we interviewed are generally well-equipped and proactive on the topic. Larger firms with greater resources have been able to move more quickly, embedding sustainability into structures, governance and investment strategies. Smaller firms are also progressing, though resource constraints and regulatory complexity remain significant challenges. Across firms, leadership buy-in and evolving regulation are two common features pushing them further along the maturity curve.

"Anyone who has worked in the insurance or pensions industry over the past decade has had to get on board with ESG. From around 2014 or 2015, it started gaining traction. And, once The Pensions Regulator *required trustees to include ESG and sustainability in their Statements of Investment Principles, anyone running a trust-based scheme had to pay attention. So, I would say the learning has happened organically, driven by regulation and industry change."*

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"Our asset managers assess long-term systemic risks, and engage to ensure sustainability and long-term value creation for clients, which includes our insurance business. We've run climate scenario analyses for about five years, which helps us understand the long-term risks of climate change. It's in our own interest to promote earlier action, because an orderly transition to net zero will be the least economically disruptive."

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Keeping pace with regulatory changes is a challenge, especially for smaller firms

Larger organisations typically have well-established teams with several specialists, supported by governance forums and sustainability offices. Larger teams are able to appoint regulatory change specialists, create central offices to coordinate across asset management and insurance arms, and establish executive-level committees to oversee and advise on strategy. They are also more likely to participate in external initiatives such as the *Net Zero Asset Owner Alliance*, adopt frameworks like the *Taskforce on Climate-related Financial Disclosures*, set science-based targets through the *Science Based Targets Initiative* and publish detailed transition plans.

"The sustainability investment team consists of about 10 people, each with expertise in ESG areas. Our main role is to set the sustainability investment strategy for life insurance assets. We also have a specialist focused on regulatory changes, given how active the space is. In addition, the central sustainability office coordinates activities between the asset manager and the life company. The Executive Sustainability Committee serves as our key governance forum and advises the Chief Executive Officer (CEO)."

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Smaller organisations, while effective face limitations and are particularly challenged when it comes to monitoring and keeping pace with regulatory changes:

"There's strong awareness sustainability is something we all genuinely need to do. But where literacy is lower is around the regulatory angle. I'd describe it as a great desire to act but less understanding of exactly what's required."

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Despite differences in scale and resources, common themes emerged across all interviews, principally the importance of leadership buy-in. Interviewees often described senior executives and boards as supportive, acting as champions of sustainability within their organisations.

"From the investment side all the way up to the Chief Investment Officer (CIO) and leadership team, everybody is aware of the main topics. We put proposals forward, and update and educate people on evolving topics. Not every team member will understand complex climate metrics like temperature scores but they understand the big picture. We have great buy-in at the top, from the chairman to the CEO and the Board's sustainability committee but, in between those two levels, we still have work to do."

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One strategy to maintain senior teams' engagement and institutionalise sustainability is assigning dedicated responsibility to them, integrating sustainability into board-level committees and aligning it with established risk management functions:

"Our Chief Risk Officer is our designated climate officer, ensuring climate risks are appropriately managed. We also have a Sustainability Committee chaired by our CEO, the only committee he chairs outside of the Executive Committee. This gives it weight and ensures actions are taken seriously. While climate is central, we focus equally on social factors. We see sustainability as a balance between environmental and social dimensions. We use the 'wedding cake' model: if you don't get the environment right, social context falls apart."

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This highlights another recurring challenge: the 'cascading down' effect. While sustainability literacy is generally high at the leadership level, it tends to weaken at middle management and operational levels. Training has often focused on boards and senior executives, leaving wider staff engagement more fragmented.

1.1

Insurance firms as 'responsible investors'

Terms like 'ESG' and 'impact' were rarely used by interviewees in our conversations. Instead, most referred more broadly to 'sustainability' when describing their efforts in this space. Several also noted ESG and impact have become politicised terms and therefore prefer to frame their work as 'responsible' or 'sustainable'.

"I'd say sustainability is now well embedded. It has been a journey of growth in recent years. There is some controversy with political shifts but our commitment remains strong. We're moving slightly away from the term 'ESG' and instead prefer to use 'responsible business' and 'responsible investing'. These terms feel clearer and less politicised."

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'Responsible investment' is an appropriate term to describe where much of the industry stands. Firms are making significant efforts to improve reporting practices, build internal capacity, identify risks and conduct climate scenario analysis. However, when it comes to investment practices, most remain focused on screening out or excluding certain sectors, rather than actively investing with the intention of generating positive impact. In one case, a firm highlighted it was not yet convinced of the potential for impact investing to generate alpha.

"We don't have a sustainability unit within the organisation. But in terms of literacy, I've personally developed a certain knowledge base due to my role as CEO and my willingness to stay open-minded. If there are studies that show some kind of alpha generation from sustainability, I'll happily embrace them. This is the situation."

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There were, however, a few exceptions, where firms have begun developing new products specifically designed to generate positive impact through their investments:

"All of our new investment products are built around climate-focused funds. One is a pure stocks and shares product, and the other is a 60/40 mix of equities and fixed income. Fund selection is based on several sustainability metrics: carbon emissions, green revenue and a sustainability rating which includes companies contributing to the future."

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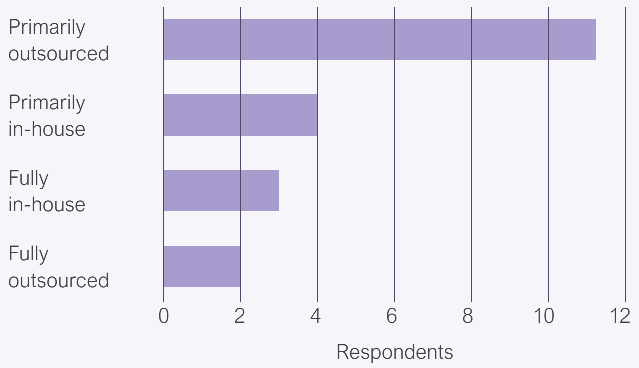
1.2

How insurers blend in-house and external management

There is diversity in how insurers balance in-house investment management with outsourcing to external managers; hybrid models are most common. Fully in-house or fully outsourced arrangements are less frequent.

Across our survey sample, investment management was primarily outsourced. The internal team focuses on the big picture - setting the investment strategy, defining asset allocation and providing oversight - while day-to-day portfolio management is handled by external managers.

Fig 1: How does your organisation split managing investments internally and appointing external asset managers ?



Conversely, primarily in-house management tends to take place in larger organisations with more resources. A common split is 80% managed internally and 20% outsourced, with internal teams typically managing core and traditional assets, such as equities and bonds, while external managers are brought in for specialist areas. Despite the split, the same responsible investment policy is applied across all managers:

"Around 80% of our investment management is handled internally. This includes all UK and some overseas equities, UK Government and corporate bonds, cash and commercial property. We bring in specialist external managers for newer or more complex areas, such as overseas real estate, infrastructure, and certain equity and fixed-income markets. Regardless of who manages the assets, all managers must follow the Principles for Responsible Investment, hold relevant accreditations, demonstrate strong ESG policies and report portfolio-wide metrics, such as carbon emissions."

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Some insurers adopt hybrid models, managing certain portfolios internally while outsourcing others. One common approach reported is managing annuity assets internally through fixed income teams, while defined contribution (DC) pensions are entirely outsourced. In these cases, insurers maintain a strong stewardship framework to ensure consistency across internal and external managers:

"We use a mix of internal and external investment managers. For annuity assets, our fixed income team manages the investments directly in-house. For DC pensions, everything is outsourced, guided by our investment policies. We have a dedicated stewardship team that sets our priorities and works with all managers to make sure they align as much as possible with our approach. On the data side, we can't depend on a single manager to provide everything we need. Instead, we build our own data pool, pulling information directly from custodians and adding pricing, analytics and ESG data. This gives us a clear, independent view of our overall investments."

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Regardless of the model, sustainability has become central to both manager selection and ongoing oversight. Independent verification of managers' claims is increasingly important; as one insurer noted: "Sustainability should be treated like any other risk - credit, liquidity, volatility - to protect members and deliver long-term returns."'

"Sustainability is one of 10 key pillars in how we select investment managers. If a manager doesn't meet our minimum sustainability standards, we won't consider them, no matter how good their performance looks."

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"Over the past four years, we ran two requests for proposals, one for our non-linked book and one for our linked book, evaluating managers on ESG credentials, sustainability strategies and reporting quality. ESG reporting varies widely and not all claims can be independently verified, so we focus on evidence of implementation, such as carbon intensity, benchmark comparisons and overall ESG scores. For our unit-linked funds, we monitor ESG performance closely and place underperforming funds under review. Some funds don't use ESG scoring, reflecting not all customers prioritise sustainability. As a mass-market provider, we aim to balance the needs of ESG-conscious customers with those who are less focused on it."

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1.3

Main takeaways

The ESG pushback in the US is not expected to affect the progress insurance companies have made. Several insurers explained that they view sustainability, and particularly climate-related risks, like any other type of risk that could impact their business. However, the backlash has influenced terminology: some are avoiding the term 'ESG' and are instead using 'responsible' or 'sustainable.'

Smaller teams, despite their efforts, have faced challenges in keeping up with the fast-evolving regulatory landscape.

Leadership buy-in has been critical to integrating sustainability across departments. One common strategy to heighten engagement with senior employees is to assign them responsibility related to sustainability - for example, chairing Sustainability Committees, and aligning this with established risk management functions. For example, in some cases the Chief Risk Officer also serves as the Climate Officer, or the CEO chairs the Sustainability Committee.

A cascading effect is evident: while sustainability literacy is advanced at leadership levels, it still needs to improve among middle management.

Insurance companies are broadly positioned as 'responsible investors'. Most remain focused on screening out or excluding certain sectors, rather than actively investing to generate positive impact, though there are some exceptions.

Regardless of approach, sustainability has become central to manager selection and ongoing oversight. Independent verification of managers' claims is increasingly important. Most outsource day-to-day portfolio management to external investment managers; full in-house management is rare. To address this, insurers establish strong stewardship frameworks that they expect managers to follow.

02

Sustainability strategy and integration

02

Sustainability strategy and integration

Sustainability strategies are standard practice in the insurance industry

This research aimed to explore where insurers currently stand on the spectrum of capital allocation to impact. Insurers are embedding sustainability into investment and underwriting through structured policies, exclusions and stewardship practices. Still, the balance is tilted towards risk management, rather than impact-driven capital allocation.

Environmental, social and governance (ESG) factors, particularly climate, are recognised as emerging risks, and are largely addressed through risk management. On the investment side, oversight is increasing, with ESG criteria applied to manager selection, stewardship, engagement, exclusions and decarbonisation goals. However, these measures are generally aimed at avoiding harm, rather than actively generating positive impact. One interviewee captured where most of the industry currently stands:

"On the risk management side, it's very clear: we must not take on significant ESG or climate-related risks. But that's different from having a sustainability-led investment strategy. We're closer to the risk management approach than to a fully sustainable investment model."

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There are, however, some emerging exceptions, and we are starting to see sustainability-positive allocations primarily as a response to decarbonisation targets and net-zero objectives.

"We have guiding principles that shape our asset origination, such as a preference for transitioning assets. These are not strict rules, but we do set targets around carbon intensity to guide the programme. We also have exclusion policies – for example, an internal oil and gas policy, and clear definitions for sustainable assets. In addition, we reference external frameworks, such as the International Capital Markets Association (ICMA) *and* Confederation of British Industry (CBI) *standards, for green bonds and other sustainable investments."*

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Insurers increasingly recognise ESG considerations can enhance earnings, both through avoided losses and new product opportunities

As a result, many have developed strategies combining risk management with underwriting approaches, often placing climate and the energy transition at the core. Typically, the first step has been to strengthen risk management with a sharper focus on climate risks. As one insurer explained:

"We underwrite a lot of property and natural catastrophe exposure, and have a dedicated catastrophe research team. We needed to extend that expertise across the firm, including regulatory requirements."

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The second step has been to develop commercial underwriting strategies supporting the energy transition. Several insurers are actively exploring these opportunities:

"Historically, we've focused on conventional sectors, but now we've launched a working group to explore new opportunities in innovation and products supporting the energy transition."

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Sustainability policies are often tiered

Typically, there is an overarching umbrella policy outlining the organisation's major goals, followed by more specific policies addressing key priorities such as stewardship, climate, diversity, equity and inclusion (DE&I), social inclusion, and other emerging topics like nature and biodiversity.

"We have an overarching sustainability strategy that drives our net-zero commitments, decarbonisation efforts, social value creation, and how we measure and report progress. It is built on two pillars: being a good corporate citizen, covering corporate responsibilities; and responsible investing, which integrates sustainability into investment decisions. Our structured policy framework supports this through an umbrella policy, which guides more detailed policies, such as stewardship and climate change, that shape internal behaviour, decision-making and processes."

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The main drivers for sustainability adoption are employee and board interest, regulatory expectations and risk management, particularly as climate and ESG risks are increasingly treated as standard risks. However, a common challenge among insurers in keeping track of regulatory changes:

"The regulatory piece is tricky, because much of the new regulation is still emerging. A key area of exposure for us is the Prudential Regulation Authority (PRA)*, which oversees the UK financial system. They're focused on managing climate risk and the financial risks associated with climate change. We're taking this very seriously and we'd like to lead in this area, but the challenge is understanding how the regulation will evolve. So. we'd like stronger literacy across the organisation, but the priority is understanding exactly how these changes will affect us and what we need to do."*

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Stakeholder input is also critical, with member surveys and board guidance often shaping priorities and investment policies. As one insurer explained:

"We worked with our board and an investment adviser to review our ethical appetite. The process led us to adopt exclusionary criteria, using an 'opt-out' approach (eg allowing less than 1% tobacco exposure, which rules out FTSE trackers containing British American Tobacco*). Recently, we completed a fund selection exercise, shifting from looser ESG funds to stricter ones. Our aim is for at least 50% of our metrics to meet or exceed benchmarks, while still delivering returns. Performance is monitored monthly through board reporting, alongside quarterly updates on ESG engagement and how managers' buy/hold/sell decisions reflect sustainability factors."*

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Engagement, stewardship and assessment of managers' credentials and ESG claims are central to insurers' approach to sustainability

While exclusions are applied for controversial sectors, such as tobacco or weapons, or where engagement fails, insurers generally prioritise engagement-first strategies. Exclusions are used only when engagement proves ineffective.

"We survey our members annually and engage a subset, our Member Community, quarterly on sustainability. This informs our exclusions and priorities."

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"If we're uncomfortable with managers' voting strategies or stewardship practices, we follow up with them. When selecting managers, we ensured their funds met certain ESG standards. These are reviewed quarterly. If we're not satisfied with their response to concerns, we may consider disinvestment."

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Insurers track progress against carbon intensity, ESG scores, decarbonisation targets and net-zero commitments, with reporting occurring quarterly or annually to inform board oversight and risk appetite discussions. Independent verification is increasingly used, particularly for private market investments, to ensure ESG claims are credible.

"Our role is to understand how managers' policies evolve and what direction they're taking. For example, where we used to have a biannual two-hour call that covered operational updates and people changes, we now also hold separate ESG meetings. The workload is definitely increasing but ESG has become too important to overlook."

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"When we appointed a new fund manager last year, we looked closely at their sustainability performance, reporting and ability to evolve with us, so our strategy can adapt as our thinking and our members' priorities develop."

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"Our approach focuses on engagement rather than exclusion. Fortunately, our portfolios already perform well, so we haven't needed to replace any managers. Even when a manager scores poorly on ESG, we prefer to work with them to improve rather than divest, as passing the issue on isn't productive. ESG considerations have been part of our external manager selection and monitoring process for some time."

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Stewardship

We asked insurers how important stewardship and engagement are in their strategies. The most common response was "very important". As buy-and-hold investors, most insurers we spoke to have a vested interest in ensuring companies mitigate material risks and operate in socially responsible ways. Big businesses frequently engage with companies throughout the life of an investment, particularly when ESG risks have been identified. Such engagement is closely linked to their net-zero commitments and decarbonisation goals. Smaller companies prefer to do so through market initiatives or their managers.

"We review investment manager activities like engagement with companies, annual general meeting voting records and board-level interactions."

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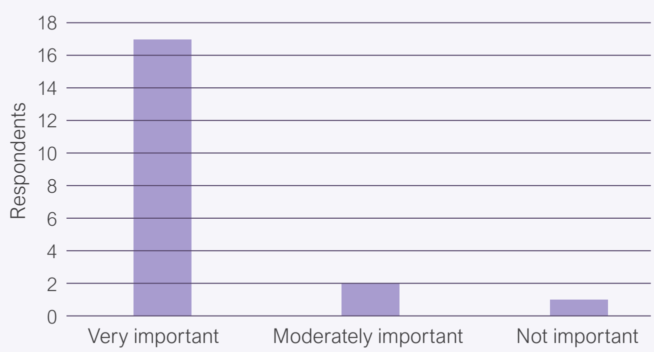
Fig 2: How important is stewardship and engagement in your strategy?



"Stewardship is a key way we influence corporate behaviour. Without engagement, we couldn't influence investee companies to set credible transition plans. We make sure asset managers follow through on their stewardship commitments and on specific engagement objectives we set, like pressing large emitters for credible transition plans. We're realistic: we're not big enough to move companies on our own but, by adding our voice alongside other investors, we can influence behaviour."

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Companies that consider stewardship moderately important generally do so due to the nature of the assets they hold, which means stewardship is not a primary focus. In addition, as small organisations, their main avenue for impact is through the managers they appoint.

"About 40% of our assets are sovereign bonds, which are highly regulated, and held mainly for liquidity and regulatory purposes, so there's little opportunity for direct engagement. We also don't engage on investment-grade assets. As a small, under-resourced team, direct engagement wouldn't move the dial, so we focus our efforts where we can make a bigger difference. With 70 companies in the portfolio, engaging directly isn't practical or viable. Where we can have an impact, stewardship is exercised through outsourced assets, such as equities and high-yield investments. We make sure the managers we appoint engage effectively and vote appropriately. Many of these managers have the resources to do so and we see this as a key consideration when selecting them."

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At the other end of the spectrum, one respondent explained stewardship is not a relevant consideration for their firm. Instead, their approach is centred on allocating capital to external managers, and assessing them exclusively on financial performance and risk management, rather than sustainability factors:

"Our approach is to allocate money to managers, who then carry out their own engagement activities. I have no say in what they do; that's completely out of my view. When it comes to our own engagement with managers, we challenge them on returns and risk, not sustainability. Manager selection follows a structured process: we assess performance, track record, team stability, insurance expertise, drawdowns and how they've managed past underperformance. If a workout process is required, we also evaluate the team's structure for handling it."

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2.1

Sustainability integration across underwriting and investment

Insurers are embedding sustainability across their activities, but the level of integration differs between investments and underwriting. Investment practices are generally supported by established tools, governance structures and regulatory scrutiny that has been in place for several years. Interviewees offering general insurance (GI) said underwriting, by contrast, is still at an earlier stage of development, but it holds potential to mitigate risks and capture new opportunities. Increasingly, regulation is pushing insurers to develop climate strategies connecting investment and underwriting, which is a major driver for their journey.

Investments: more structured integration

Many interviewees emphasised ESG considerations have been part of investment processes for a long time. For this reason, the asset management side is seen as 'more advanced' through portfolio monitoring, metrics and reporting. Firms routinely analyse portfolios to identify drivers of performance and ESG scores, and apply tools and metrics such as carbon intensity tracking (weighted average carbon intensity [WACI]), ESG scoring, transition risk assessments and climate value at risk (VaR) to their portfolios. There is also a recent goal on expanding a focus that has historically been environmental to embrace social and governance more equally.

"We consider climate risk on every deal we invest in within the shareholder assets of the insurance arm. For the non-discretionary portfolio, we look at several climate metrics before investing, such as physical risk, nature risk, carbon intensity and transition risk or transition profile of the asset. It's a fairly consistent process across asset classes. The specific metrics might vary but the approach is consistent."

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Strategic asset allocation increasingly incorporates climate and sustainability considerations. Annual scenario analyses feed into capital market assumptions, while sector exclusions, particularly in coal and high-carbon sectors, are becoming more common. From an investment perspective, companies are also increasingly combining risk management with transition investments, such as renewables and, more recently, nature-based solutions. Yet, among the insurers we interviewed, only a few are currently allocating to the latter.

Stewardship and engagement remain the preferred approach, but exclusions are applied where engagement fails. In addition, insurers also consider sustainability and ESG factors when selecting managers. They ensure managers demonstrate how sustainability is embedded into their process and, once they are onboarded, they oversee their activities and keep them accountable.

We commonly heard from insurers "the investment and risk sides of the business are almost inseparable". Many noted ESG considerations are now embedded within their risk frameworks and reporting processes, reinforcing the view managing risk cannot be separated from managing portfolios.

"From a risk management perspective, we regularly review and update our risk register. ESG issues are highlighted specifically and linked to related risks, and we report on them using appetite scores and assessments. This is clear in our latest Own Risk and Solvency Assessment (ORSA) *reports and other internal reviews, where we now benefit from richer data provided by our fund managers. For us, investment and risk management have never been treated as separate areas: they've always gone hand in hand."*

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"Risk management is part of portfolio management; you can't detach the two. As CIO, my role is to generate returns within a contained risk framework. Portfolios have time horizons and, within that horizon, you need to understand what risks might emerge in a material way. If my horizon is five or 10 years, I need to construct and manage a portfolio with the understanding a certain set of risks may emerge during that period and my returns will depend on those risks. So, risk and return are two sides of the same coin. The unifying factor is the time horizon over which risks might materialise."

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Insurance companies are building sophisticated frameworks to address climate-related commitments. These frameworks incorporate escalation processes for high-carbon sectors and assessments of environmental impacts, risks and opportunities across their portfolios. However, the materiality of climate risks varies significantly across time horizons and investment strategies, shaped by factors like asset allocation, portfolio duration and exposure to different sectors. As a result, even when climate risk is formally assessed, its relevance and immediacy can differ across different companies. For example:

"Environmental risks are embedded in our group risk appetite framework. We've carried out a sustainability impacts, risks and opportunities assessment, aligned with the Corporate Sustainability Reporting Directive requirements, which highlighted climate change as a major business risk."

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"On the investment side, I've been developing a framework to assess climate risk in the investment portfolio, focusing on transition and physical risks. A preliminary analysis last year concluded the portfolio's climate risk is not significant, partly due to the large allocation to short-duration investment-grade fixed income, which rolls off in two to three years. This also raises questions about the relevance of models projecting to 2050."

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As the example below illustrates, for firms further along in their journey, investment efforts are typically focused on transitioning portfolios. Beyond identifying risks in their portfolios and excluding high-emitters, newer funds are deliberately structured to align with sustainability goals and net-zero objectives. While older portfolios may still have exposure to high-carbon or 'brown' sectors, these are being gradually phased out.

"Different areas have different objectives, but the overall approach is broadly similar. For example, one of our legacy investment portfolios has exposure to 'brown' sectors, such as oil and gas and heavy construction, but it's running off, so its carbon footprint is decreasing. In contrast, our new open-to-business funds are climate-focused. We review performance quarterly with our investment managers, who update us on carbon emissions, green versus brown revenue, and climate adaptability scores. We track WACI and are targeting net zero by 2050."

INSURANCE FIRM

Regulatory changes are a major driver for insurers

Firms are focused on understanding compliance requirements and enhancing risk management to respond to evolving regulations. As regulators like the *PRA* push firms to integrate climate considerations across all risk categories, insurance companies are increasingly treating climate and ESG risks as standard risks. These risks are now embedded in *ORSA* processes, risk registers and board-level risk appetite frameworks.

Some firms note methodological challenges in quantifying and allocating climate risks across categories, but they view regulatory pressure as helpful in keeping the issue front of mind.

"With the PRA's supervisory statement 3/19 and consultation paper 10/25, the regulator expects climate risk to be considered across all risk categories. That's challenging, because risks aren't easily separable: you can't just point to a market risk number and say, '10% of this is climate risk.' In reality, risks are too intertwined to separate neatly. Still, we work within the regulatory expectations. There are some benefits: it ensures climate risk isn't overlooked and encourages us to consider whether market pricing may be underestimating it. Ultimately, the current debate is about methodology, so how to implement this in practice".

INSURANCE FIRM

Underwriting: still emerging

By contrast, sustainability integration in underwriting is at an earlier stage. Non-life firms are building climate considerations into underwriting, particularly around property, catastrophe and commercial real estate risks. Their physical risk assessments often involve modelling future flood or weather-related impacts, which can influence underwriting decisions such as pricing or coverage. For life insurers, climate risk is mainly integrated in the investment side.

Some insurers, although developing organisation-wide climate strategies, highlighted the challenge of aligning underwriting and investment. In underwriting, climate risk may affect premiums, asset-level exposure and claims modelling, while in investments, it is more likely to appear as metrics like climate VaR, or impacts on company credit ratings and valuations.

Life companies said their climate risk assessment is limited compared to a non-life insurer. However, they do run climate scenario analyses (using *Network for Greening the Financial System* [*NGFS*] scenarios). They apply this not just to investments but also to liabilities, mainly through the *ORSA* process. Presently, the way climate risk shows up in their balance sheet is mostly as part of operational risk capital: climate risks are treated as a component of broader operational risk, not yet fully broken out on their own.

Several insurers acknowledged underwriting and investment strategies were developed separately. Many are now moving towards organisation-wide climate risk strategies as an attempt to ensure consistency of scenarios, timeframes and language across the business.

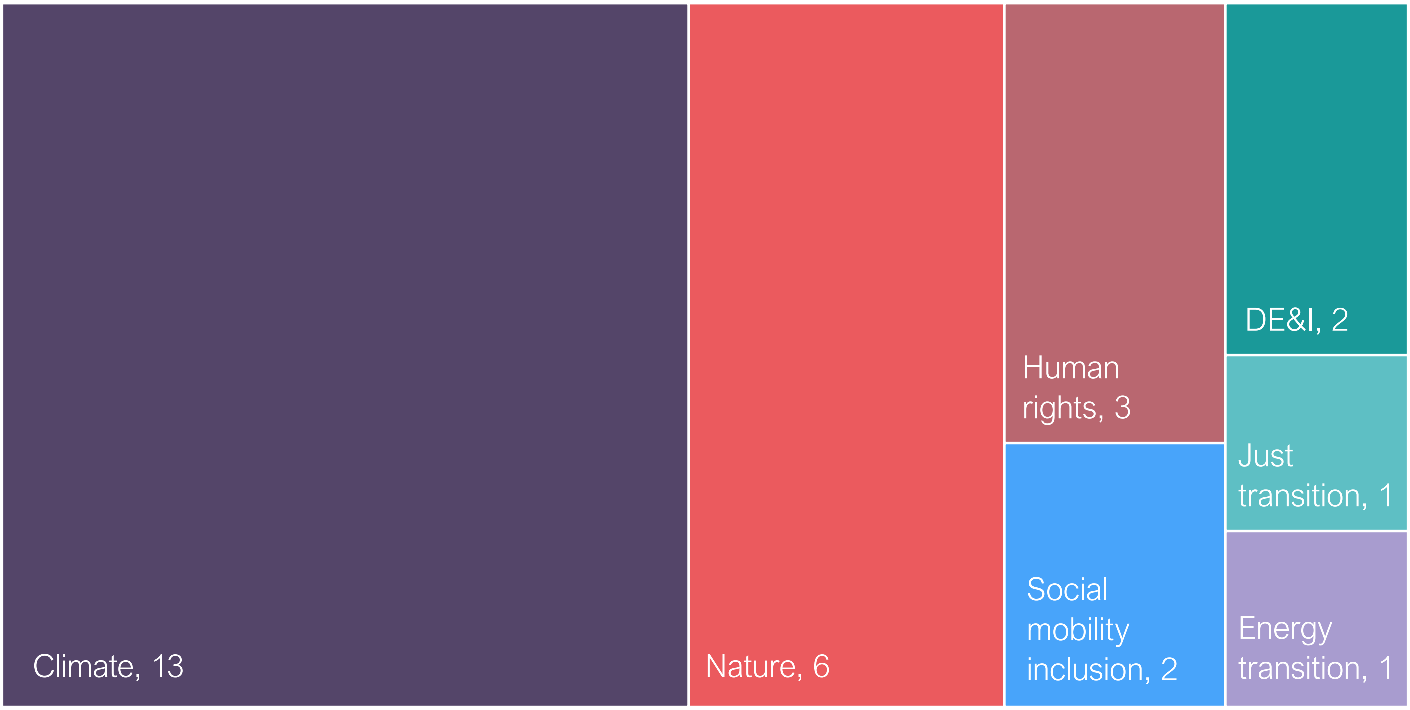
"Underwriting and investment are similar. For example, with physical risk we look at where assets are located and how they might be affected by climate. But the way we measure and report those risks is different. In underwriting, it could mean adjusting premiums. In investments, it might be expressed as climate VaR: estimating future costs, discounted back and how they impact today's portfolio. So, while we try to align scenarios and timeframes, the systems and outputs don't directly map. Investments focus on company-level impacts like share price, debt or credit rating. Underwriting looks at specific assets and models the potential risk. More recently, we've recognised the need for a consistent climate risk strategy across the whole business. Before, different teams were writing their own approaches and things were falling through the cracks."

INSURANCE FIRM

Finally, while much of the attention is on risk, some firms are beginning to see opportunities in underwriting linked to the energy transition. Emerging areas include renewable energy projects (wind, solar, hydro), green technologies (battery storage, carbon capture, hydrogen) and new mobility solutions (electric vehicles, charging networks, shared mobility).

2.2

Priority themes



Climate, nature and human rights are the main topics shaping insurers' stewardship activities and are prioritised in their risk management processes. An indicator of this is the growing adherence to the UK Stewardship Code, which was frequently highlighted by interviewees.

In investments, the importance of these themes usually translates into exclusions and engagement at the investee level, most often carried out through asset managers. As one insurer put it, "ESG issues are all potential risks to the share price and therefore to our customer outcomes. So, we're looking for evidence of engagement, direct interaction and voting to ensure those risks are being mitigated effectively."

So far, very few insurers have started allocating capital with the explicit goal of generating positive impact. For most, the primary focus remains on avoiding harm. However, insurance companies are developing a more critical eye and becoming more rigorous in their assessments:

"When we review funds, we don't just stop at the overall ESG score, we dig deeper. Before 'ESG' became such a buzzword, governance was the main focus in the industry. So why is that suddenly seen as less important than carbon emissions? And even on carbon, if you're not considering Scopes 1, 2 and 3, you're missing the bigger picture. For example, I once reviewed a fund that praised a gypsum board manufacturer for cutting construction emissions, but the key raw material came from coal power plant waste. That's still linked to fossil fuels. You can't ignore the full value chain."

INSURANCE FIRM

Although most insurers prioritise specific themes, some interviewees highlighted the importance of seeing how these topics interconnect. They recognise ESG factors are linked to good corporate governance and can ultimately influence share prices:

"It's not enough to focus only on environmental issues while overlooking social or governance risks. Take Boohoo, for example. A few years ago, reports surfaced about poor working conditions and underpaid workers, and the share price collapsed. That wasn't an environmental problem, it was a social and governance one. As an industry, we've probably overemphasized the 'E' of ESG because it grabs headlines but, in reality, all three pillars can affect financial performance."

INSURANCE FIRM

Climate

Insurance firms recognise they are further along in their journey on climate compared to other ESG topics. Their approach to climate is more mature and holistic, encompassing:

a. Risk perspective:

Climate risks are assessed systematically through stress tests and *Taskforce on Climate-related Financial Disclosure* (*TCFD*) reporting. They are also integrated into risk registers and *ORSA*. Companies have developed frameworks to assess climate risk in their investment portfolios, focusing specifically on transition and physical risks.

"We include climate risk in our annual asset allocation stress testing. Our exposure to fossil fuels is small and taking a global approach helps reduce risk. Extreme scenario stress tests suggest only a modest impact on solvency. Nature-related risks are still relatively new for us, so we're focusing mainly on the property team, where physical risks like floods are more visible. We use providers like MSCI *to assess exposures. Overall, climate risk is well integrated across underwriting and investment, while nature risk is still evolving."*

INSURANCE FIRM

"We've stress-tested our portfolio for physical climate risk. We do include early and late action climate scenarios across our portfolios as part of our annual TCFD *work."*

INSURANCE FIRM

b. Underlying investments:

Implementation approaches for those aiming to generate positive impact typically include transition assets (securities expected to decarbonise over time) and climate solutions blocks (Article 8 and 9 sustainable funds under the *Sustainable Finance Disclosure Regulation*). Insurers emphasise that financial returns remain a priority, so any ESG investment must align with their return expectations. Scope 3 emissions are also an emerging concern.

"We've signed up to carbon emission reduction targets for the equities and corporate bonds we can measure: 50% reduction by 2030 and net-zero by 2050. When doing strategic asset allocation, our main goal is maximising risk-adjusted returns, but we're mindful of carbon emissions. ESG and environmental policies are integrated into our investment decisions. For example, the risk of stranded assets in oil companies makes them riskier investments."

INSURANCE FIRM

c. Board-level targets:

Recent efforts include establishing an overarching sustainability strategy, with a single climate risk strategy spanning the entire organisation. A key sign of progress is the strengthening of sustainability teams. Even firms with smaller teams have recognised the importance of the issue and aim to onboard additional resources.

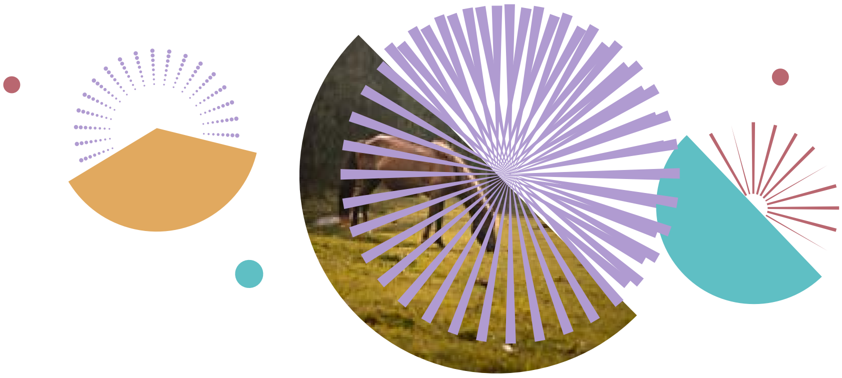
"Climate has the biggest influence, especially due to the PRA's *focus on financial risks from climate change. We look at carbon intensity and warming potential, and run climate-related stress scenarios to assess long-term impacts. Returns still take priority – that's what our customers expect. Climate comes second. If there's a trade-off, financial returns usually win, though we're committed to aligning our funds with sustainability principles."*

Insurance Firm

Despite the progress made on climate and the ambition across the industry to advance sustainability, insurers acknowledge that integrating climate considerations into their operations comes with practical challenges. One key difficulty lies in aligning long-term climate risks with shorter-term investment and underwriting cycles:

"Our liability duration is about two years, so we match portfolios accordingly. That creates a challenge: most climate risk scenarios play out over longer timeframes, while our portfolios turn over quickly. It's the same on the underwriting side: a syndicate runs on a one-year cycle. So, the challenge is bridging short-term decision-making with longer-term climate risks, which is almost the opposite of how pension funds operate."

INSURANCE FIRM



Nature

Nature is increasingly recognised as an important area for insurers, but engagement remains cautious and uneven. In some cases, firms do not explicitly use the term 'nature' but integrate it within broader environmental factors. While many firms acknowledge that nature is 'on the agenda', they face significant challenges in integrating it into their frameworks.

Nature-related risks are often geographically specific and existing data can make it difficult to link impacts meaningfully, particularly for investment-grade, multinational portfolios. Adoption tends to focus on opportunity identification rather than systematic integration, with insurers relying heavily on fund managers to flag nature-related risks where feasible.

"We're investing in forestry and nature-based solutions, but from an investment perspective, the opportunities are still quite limited. It's difficult to clearly define and carve out nature-focused investments. When it comes to allocating more to nature-positive assets, the challenge really depends on how you define 'nature investments'. If we mean nature-based solutions, the main issue is deploying them at scale. The market is still small and has a limited track record, so the lack of investable opportunities is the biggest barrier right now."

INSURANCE FIRM

There are efforts to build internal capability, which includes board training on the *Taskforce on Nature-Related Financial Disclosures.* Despite these efforts, insurers are still in the early stages of measuring, quantifying and systematically incorporating nature into investment and risk processes. Companies also highlighted having conversations with natural capital providers, but stressed challenges in measuring and proving impact.

"Honestly, I've tried hard to figure out how to do [nature], and I don't know. So, the short answer is 'no'; nature is not yet part of our framework but not for lack of effort. Our investment portfolio is mostly investment-grade, dollar-denominated, large multinationals. Nature risks tend to be geographically specific and the data we get doesn't allow us to link impacts meaningfully."

INSURANCE FIRM

"We see nature as an emerging risk in our framework, while climate is now an established one. The key challenge with nature is how to assess and measure it: there's still a lack of clear metrics, which makes it harder to define concrete actions. We recognise nature as an important risk, closely intertwined with climate. But unlike climate, where we have defined metrics, reliable data and broad industry consensus, with nature we're still working out the right metrics and data sources, and there's no agreement yet on what to prioritise."

INSURANCE FIRM

Social, DE&I and human rights

Insurance companies link social factors, including social inclusion, DE&I and human rights, with governance considerations. For many insurers, DE&I is prioritised at the organisational level, such as board representation, rather than at the underlying investment level. Gender equality and social inclusion are major stewardship and engagement priorities, though data scarcity makes meaningful action on social and governance metrics more challenging than environmental metrics.

"Data protection and privacy laws make it difficult to collect certain types of social data. Governance is somewhat easier to track but social factors are extremely tricky. That's one reason the focus has shifted toward the environmental aspect: it's simply more measurable. This doesn't mean 'S' (social) and 'G' (governance) are less important, but collecting and interpreting that data meaningfully is a huge challenge."

INSURANCE FIRM

Social themes are integrated through frameworks such as the sustainable development goals and B Corp certification, as well as through considerations like animal testing, social housing and defence sector investments. Member engagement plays a key role in shaping investment priorities and exclusions, while legal requirements and member sensitivities also guide decisions – for example, excluding controversial weapons or tobacco.

2.3

Physical risks assessment

Firms recognise physical climate risks and, increasingly, nature-related impacts as relevant to investment decisions, but climate risk is better established, with frameworks, metrics and stress-testing approaches in place. Nature-related risk is newer and less developed, which often leads insurers to start by focusing on tangible areas.

"Nature-related risk is newer, so we're currently focusing on the property team, where physical risks like floods are most visible. Climate risk is well integrated across underwriting and investment, whereas nature risk is still developing."

INSURANCE FIRM

Insurers are taking an incremental approach when it comes to considering physical risks. Besides the example above, where the firm first decided to focus on 'visible' assets, insurers are integrating climate risk gradually, starting with embedding it into guidelines and long-term assumptions, and working towards a future where those risks actively drive big allocation shifts.

We have organised opposite a selection of similarities in the pathway insurance companies are taking, in order to incorporate physical and transition risks into their assessments.

Step-by-step

For now, firms are focusing on what they can realistically implement today (basic risk integration, guidelines and long-term assumptions). At the same time, they are working towards more advanced portfolio decisions that would fully integrate climate risk into asset allocation.

1. Combining quantitative models with qualitative judgement: they run climate risk models to get quantitative outputs, like projected impacts of physical and transition risks. However, since models have limitations, they also add a qualitative layer of analysis (human judgement, sector knowledge and expert interpretation).
2. Embedding transition risk into investment guidelines: at the stock level (individual company investments), they consider transition risks (how exposed a company is to carbon taxes, regulation or technological change). When they outsource to external managers, they ensure these risks are included in the investment guidelines the managers must follow.
3. Incorporating risks into long-term assumptions: they have added some basic adjustments into their long-term capital market assumptions. These are the baseline expectations for returns and risks across asset classes, used to set strategy. For example, they might lower the expected return on carbon-intensive industries, or factor in higher risks for sectors vulnerable to floods or policy change.
4. Still developing complex allocation decisions: they are not yet at the stage where they actively overweight or underweight alocations purely because of climate risk signals. They admit this level of sophistication is still a work in progress.

Approaches

Combination of quantitative and qualitative methods: models, vendor data, carbon intensity metrics, scenario analysis and expert judgement. Models are helpful, but not fully reliable, so outputs require calibration based on expert judgement.

"We combine model outputs with qualitative desktop analysis. Transition risk is embedded into guidelines and we've built building blocks into long-term capital market assumptions. Complex decisions are still being developed but we pragmatically address what we can now."

INSURANCE FIRM

"We use a combination of quantitative and qualitative analysis. Manual analysis isn't feasible due to our large footprint, so we rely on vendor models but calibrate them with judgement, setting thresholds for low, medium and high risk."

INSURANCE FIRM

Stress-testing is widely used, often through *ORSA, TCFD* reporting or *PRA* methodologies, to assess portfolio exposure under physical and transition risks.

"We track carbon intensity and publish it in our TCFD *report, including climate stress-testing for both physical and transition risks. Outputs from central bank scenarios aren't always helpful, so we supplement with expert judgement."*

INSURANCE FIRM

"We use PRA *methodologies like 'no action' and 'early action' scenarios. Data from the* NGFS *informs our scenario testing and long-term risk view, though data quality is a challenge."*

INSURANCE FIRM

"We assess climate risks through the ORSA *and have stress-tested our portfolio for physical climate risks. Scenario analysis helps identify red flags. We include early- and late-action climate scenarios as part of our annual* TCFD *work."*

INSURANCE FIRM

Portfolio implications

As noted above, the results of physical and transition risk analyses are not yet broadly influencing everyday asset allocation. While climate and nature considerations guide high-level allocation decisions, they do not consistently affect day-to-day investment choices.

"Complex decisions, like adjusting allocations based on climate and physical risk, are still being developed."

INSURANCE FIRM

However, some actions are being taken at the portfolio level, and these include:

a. Avoiding double exposure where underwriting and investments might overlap in high-risk areas.

"We compare our portfolio to our underwriting activity. If our underwriting avoids certain properties due to ESG concerns, we ensure we don't invest in those same assets, helping avoid double exposure."

INSURANCE FIRM

b. Screening or favouring companies aligned with climate transition and prioritising sectors or regions with higher climate or carbon intensity for deeper analysis (like housing and infrastructure).

"We focus on sector-specific issues, such as stranded assets or changing consumer expectations. For example, we invest in auto manufacturers only if they focus on electric vehicle or hybrid technology. Decisions are often subjective; penalising past emissions scandals versus rewarding active change isn't black and white."

INSURANCE FIRM

For this reason, the integration of nature-related risks is still largely concentrated in property and select real assets, with broader portfolio coverage less advanced.

"Nature risk is still developing, and assessment relies heavily on property teams and available data, highlighting the evolving nature of these assessments."

INSURANCE FIRM

c. Some firms incorporate long-term strategic shifts, such as moving from carbon-heavy legacy funds to more sustainable, newer funds, rather than making frequent tactical reallocations based on long-term projections.

"Scenario analysis helps validate broad strategy, such as shifting from carbon-heavy legacy funds to more sustainable new funds, but is less useful for granular decisions, like instructing managers to reallocate based on 2050 projections."

INSURANCE FIRM

Use of scenarios

Scenario analysis is used mainly to flag risks and validate broad strategy, rather than direct investment moves. Scenarios, stress tests and central bank or *NGFS* scenarios help identify potential shocks, but operational volatility often obscures the climate signal.

"Scenario analysis is part of our TCFD *work, used to flag risks and identify red flags. Given our strong capital ratio, we focus on whether potential shocks are absorbable, rather than making tactical reallocations."*

INSURANCE FIRM

"Scenario analysis is influenced by two main issues: the credibility of long-term asset assumptions and short-term operational volatility, which often masks the climate signal. It is helpful for setting broad direction but less useful for detailed investment changes."

INSURANCE FIRM

"Stress-testing is used for both physical and transition risk under various scenarios. Central bank scenario outputs aren't particularly insightful, so we focus on deep dives into higher-risk sectors."

INSURANCE FIRM

Challenges with scenario analysis include the difficulty of translating scenario outputs into actionable decisions, particularly due to limited trust in the data, especially when comparing long-term projections with short-term operational planning.

"Data quality is a significant challenge. It's difficult to justify strategic changes based on 30-year projections when underlying assumptions aren't robust. Operational volatility can overwhelm the climate signal."

INSURANCE FIRM

"Different vendor models produce different results and some imply a level of precision that is inappropriate. We calibrate using judgement to classify risks as low, medium or high."

INSURANCE FIRM

2.4

Regulation

Interviewees had divergent views on whether *Solvency UK* capital requirements affect insurers' ability to invest in sustainable or nature-positive assets. Most said *Solvency UK* does not categorically prohibit such investments, but it does shape what is possible.

Firms are asking for explicit guidance on nature and clearer rules to integrate sustainability into solvency frameworks. Regulation helps focus attention and resources, but they would appreciate more guidance, especially around nature, which they noted as missing in *PRA*'s latest CP10/25.

a. Constraints vary by model and investment characteristics

Interviewees mentioned constraints depend on insurer type. Annuity-heavy insurers mentioned matching adjustment (MA) eligibility as a limiting factor. Many nature-positive or transition assets are illiquid, unrated or carry equity-like risk profiles, which makes them ineligible for MA portfolios. Property and casualty (P&C) insurers face challenges from short liability durations, which make long-term investments like infrastructure debt or forestry a poor fit.

The key question is less about whether insurers can invest in nature-positive assets and more about whether the opportunities present themselves in the right form, with credible impact and at attractive economics.

"Does it affect our ability? Not necessarily. It's more about the format of opportunities. Solvency II *and the MA steer us, especially on our annuity business, toward long-term, fixed, predictable cash flows. So first, does the investment come in the right format? Second, are the economics attractive? Lower ratings mean more capital and can make it uneconomical. Many nature-positive assets rely on credit sales or equity-like structures, which fit better in policyholder portfolios. With initiatives like the* Mansion House Compact, *there may be more scope there.* Solvency II *isn't a blocker, it's about whether the opportunity set comes in the right form, at the right price, which is still rare."*

INSURANCE FIRM

Another insurer added that nearly all of its assets sit in an MA fund, where strict eligibility criteria rule out many high-potential areas:

"They absolutely affect us. About 95% of our assets sit in the tightly regulated MA fund. Assets must generally be investment-grade and we mostly invest in the debt space because equity is too volatile for our purposes. So, we focus on private and public investment-grade debt. This limits our ability to invest sustainably. High-potential areas like climate tech, timberland, farmland or carbon credits don't meet MA eligibility. These are places where capital could make a big difference but regulation prevents us from investing."

INSURANCE FIRM

"We mainly invest in public and liquid assets, where solvency rules aren't a major issue. If we were looking at private or illiquid assets, that might be a consideration. But the real factors are member appetite, the investment case overall, liquidity, structure, and whether we have the skills or need specialist managers."

INSURANCE FIRM

For non-life insurers, the challenge looks different. With short liability cycles, long-duration assets simply do not fit. Beyond business models, several insurers highlighted that weak or inconsistent impact data across the market also creates barriers. Some were cautious about investing in assets where sustainability claims lack credibility or measurable outcomes, highlighting that capital rules are only part of the equation.

"We explored infrastructure debt, but its long duration creates an interest rate mismatch and inefficiency for a two-year P&C insurer, and the commitments are larger than we can make. We haven't focused much on shorter impact bonds, mainly due to weak reporting like credits for forests never at risk or vague healthcare claims. That lack of clarity has held us back more than capital rules."

INSURANCE FIRM

b. *Solvency UK* does not currently incentivise green investment

Interviewees argued that while *Solvency UK* ensures prudence and stability, it is currently neutral between high and low-carbon assets. In their view, this creates a regulatory blind spot, where capital requirements protect balance sheets but fail to differentiate between projects that accelerate the transition and those that lock in fossil fuel:

"The key difference between pensions and insurance is that our business, particularly annuities, requires highly predictable cash flows to meet long-term guarantees. This drives us towards fixed income, public and private investment-grade credit, rather than equities or sub-investment-grade assets. Solvency II *makes sense from a security perspective but, from a regulatory standpoint, there's no distinction between investing in an oil project versus a wind farm, as long as they have similar risk profiles. Renewable projects are newer and more complex, so without incentives, they can lose out. We think the regulator can do more to incentivise transition-focused investments over legacy fossil fuel ones."*

INSURANCE FIRM

According to interviewees, while *Solvency UK* is not hostile to green investment, it does not actively support it either. Without changes, such as differentiated treatment of fossil fuel versus renewable projects, and explicit regulatory guidance on climate and nature, insurers see limited scope for scaling capital toward transition and nature-positive assets.

"Punitive capital treatment for fossil fuel exposure, or incentives for sustainable assets, could accelerate action. On Solvency II*, progress is slow due to data limitations, but regulation helps focus attention and resources. The* PRA *consultation CP10/25, updating how banks and insurers manage climate-related risk, was silent on nature. Explicit guidance on regulatory expectations would be helpful. Regulation not only sets guardrails but helps organise how firms move forward. MA eligibility is also a key limiting factor. Many net-zero transition assets and emerging nature-based solutions aren't MA-eligible, which constrains deployment of capital in these areas."*

INSURANCE FIRM

c. Mutuals and smaller insurers are less constrained

For mutuals and smaller insurers, *Solvency UK* is generally not seen as a binding constraint. Their investment decisions are driven by risk–return considerations, liquidity needs, member appetite and governance capacity. In practice, this means sustainability and nature-related investments are assessed alongside other opportunities, rather than being ruled out by regulation. Several noted that while they had explored natural capital opportunities, these did not yet justify the risk-return profile they were seeking. Others emphasised that the real barriers are impact measurement and economic returns, rather than solvency rules themselves.

*"*Solvency II *is not a significant constraint. We integrate sustainable investments into our existing portfolio, rather than having a separate natural asset allocation. Our equity funds already include areas like alternative energy. Solvency rules don't adjust for sector biases. We've looked at natural capital investments, such as forestry, but the expected returns don't currently justify the risks. We are considering a separate impact investing pot but, for now, everything sits within existing asset classes. Our strong solvency position means we don't face the same constraints as some insurers and our mutual structure naturally biases us towards responsible investments. Ultimately, the constraint is risk and return. Some nature-positive opportunities exist across equities, fixed income and infrastructure but, so far, nothing has justified a standalone allocation."*

INSURANCE FIRM

d. Divergence across jurisdictions

Interviewees highlighted challenges from regulatory divergence between European Union (EU) and UK ESG frameworks. While *Solvency UK* itself does not restrict sustainable investing, differences in disclosure and fund naming rules create practical barriers.

*"*Solvency II *isn't a restriction. For us, under the standard formula, equity is equity: there's no sustainability barrier. The bigger problem is the regulatory divergence between EU and UK frameworks. For example, I might invest in an EU fund called 'Climate Leaders', but under UK rules, I can't market it with that name here, because it complies with EU, not UK, ESG disclosure rules. That's confusing. Some asset managers have responded by removing 'sustainable' from their fund names altogether. To me, that hurts the consumer. It creates unnecessary opacity between markets."*

INSURANCE FIRM

2.5

Main takeaways

Insurers are embedding sustainability into investment and underwriting through policies, exclusions and stewardship. The focus remains tilted toward risk management, rather than impact-driven capital allocation.

Integration levels differ; the integration of sustainability considerations in the investments are generally more advanced, supported by tools, governance and regulation, while underwriting is still developing, but holds potential for risk mitigation and new opportunities.

Many noted sustainability has long been part of investment processes, making asset management “more advanced”. Investments and risk management, including of ESG factors, are seen as inseparable, which is why this area is more developed.

Underwriting integration is at an earlier stage. On physical risks, insurers are taking an incremental approach, focusing first on visible exposures such as property and floods.

Historically developed separately, underwriting and investment strategies are now moving toward unified, organisation-wide climate approaches to ensure consistent scenarios and language.

Aligning underwriting and investment remains a challenge. In underwriting, climate risk affects premiums and claims modelling, while in investments it influences credit ratings, valuations and portfolio metrics like climate VaR.

A key challenge is reconciling long-term climate scenarios with short-term investment and underwriting cycles, where liability durations are often only two years.

Climate is the top priority: in investments, it is applied through stress tests, *TCFD* reporting, risk registers, stewardship, engagement and, in more advanced firms, thought allocations to transition assets and Article 8/9 funds.

Interviewees mentioned *Solvency UK* does not categorically prohibit such investments but it does shape what is possible. They are asking for explicit guidance on nature and clearer rules to integrate sustainability into solvency frameworks.

03

Implementation and investment practice

03

Implementation and investment practice

Insurers repeatedly stress that while their frameworks remain consistent across asset classes, the way they apply sustainability has to adapt to the individual characteristics of each. They aim to balance consistency with nuance, but recognise what works for listed equities cannot always be applied in the same way to real assets, private markets or sovereign debt.

"Considerations change across asset classes. For example, in real assets like property, we emphasise physical risk, particularly flood risk in the UK, which is our biggest peril. That won't be relevant to other asset classes. So, while there's nuance, the frameworks and principles remain consistent."

INSURANCE FIRM

3.1

Approaches vary by asset class

Insurers often described listed equities and corporate bonds as the most straightforward starting point, given the availability of data and tools such as climate indices and footprinting methodologies. These asset classes tend to represent the bulk of portfolios, making them natural entry points for decarbonisation strategies.

"Equity and credit are easier to manage, especially when it comes to footprinting, since we can use tools like climate indices. This approach also aligns well with our largest public equity and credit holdings."

INSURANCE FIRM

Private markets and real assets, by contrast, are more complex. Limited data, higher transaction costs and methodological uncertainty make it harder to implement consistent environmental, social and governance (ESG) assessments. Some firms proceed cautiously, organising their approaches deal by deal.

"It's a step-by-step process across asset classes. For public equities, our main approach is using self-decarbonising indices, which helps lower the carbon profile and manage transition risk. For the annuity book, we set investment guidelines that include decarbonisation targets, so the teams are focused on returns and reducing emissions. In private markets, the process is more deal-by-deal. Before each investment, we evaluate its carbon profile and its impact on the overall portfolio average. At a higher level, we also look at the business and asset mix, which depends on our product strategy. For example, more annuities mean more private debt, while workplace savings result in a more balanced portfolio."

INSURANCE FIRM

Interviewees often raised concerns about sustainability claims in the private market space, noting reporting is less developed and data on carbon footprint are limited:

"We're not active in private markets at the moment. The reporting challenges are even greater there and it's difficult to verify sustainability claims. It's an area we're exploring but we haven't committed yet. That said, I believe our ESG approach should be consistent across all asset classes. Whether we're investing in equity, debt or real assets, a company's practices still matter."

INSURANCE FIRM

"In private markets where data are limited, ESG considerations are embedded in our due diligence. We ask ESG-specific questions during primary data collection and, for repeat issuers, use re-engagement opportunities to influence behaviour, essentially saying: 'We'll reinvest, but we want to see XYZ performance'."

INSURANCE FIRM

Infrastructure projects and real estate are seen as areas with bespoke opportunities. With these projects, we often hear about metrics that go beyond decarbonisation to include social impacts, such as job creation.

"In the built environment, a small but fast-growing part of our portfolio, we have a robust ESG integration process. Every development is assessed using a 65-key performance indicator (KPI) scorecard and must achieve a minimum grade of 'B'. These KPIs are externally verified, and monitored throughout construction and operations. We also track social impact through a social value matrix, capturing factors such as jobs created during construction, apprenticeship programmes, affordable housing or homes for vulnerable tenants, public green spaces, and the local sourcing of materials and labour, including a preference for local independent businesses in commercial units."

INSURANCE FIRM

Despite hurdles related to data access, insurers view private markets as critical to advancing their decarbonisation strategies, as they offer more direct levers than public markets in many cases.

"From a decarbonisation perspective, we don't distinguish much between asset classes but we are mostly invested in debt. In private markets, especially infrastructure, we find more bespoke opportunities to support the transition. In public markets, we use sustainable and green bonds, though it's harder to track specific outcomes due to company structures. We're stricter in areas where there's a clearer link between financing and outcome, like oil and gas project finance. One of our science-based targets also focuses on electricity generation project finance."

INSURANCE FIRM

At the far end of the spectrum lie sovereign bonds, which several insurers flagged as particularly problematic. Given the heavy reliance on fixed income within insurance portfolios, excluding large sovereign issuers is unrealistic. Instead, firms often rely on qualitative judgements, adjusting exposures pragmatically when geopolitical or ethical considerations arise.

"Where it gets trickier is with sovereign debt. For example, can you really exclude US Government bonds on ESG grounds? That would eliminate a huge chunk of the market. So yes, we might adjust criteria depending on asset class, but the core lens remains."

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"With government bonds, it's much harder. How do you rate the US Government? What happens if political leadership shifts? Insurers typically hold more fixed income and government bonds, which complicates matters. We try to be pragmatic – for example, we manually downgraded Russian Government debt after the invasion of Ukraine in 2022."

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3.2

Common strategies

To implement sustainability considerations into their portfolios, insurers are adopting the following strategies:

1. Setting decarbonisation targets and monitoring progress

Many firms establish a baseline year, and track progress against interim and long-term goals. They mention divesting or reducing exposure when there is no progress. These targets are typically set at the portfolio level, though the implementation approach varies by asset class. For example, some insurers exclude government bonds from their targets, given the difficulty of measuring them. Firms further along in their journey tend to focus on transition assets, where they can invest early and influence the decarbonisation pathway, as well as on intentional allocations to Article 8 and 9 funds.

"Most of our exposure is in equities and corporate bonds. We set our baseline in 2019, and monitor progress against 2030 and 2050 targets. Some high emitters have been reduced in holdings."

INSURANCE FIRM

"Emerging market debt is more challenging; it tends to involve higher emitters and faces less external pressure, but it represents only a small share of the portfolio. Our property teams are performing well, particularly with retrofitting, achieving high energy performance certificate ratings and installing solar panels. Overall, we focus mainly on listed equities, corporate bonds and property, as government bonds are much harder to measure."

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2. Engagement over divestment

Insurers prefer to engage with companies and encourage their transition, using divestment only as a last resort.

"We only divest when companies show no path to decarbonisation."

INSURANCE FIRM

3. Exclusions and screening

Many firms implement exclusions, targeting controversial sectors and carefully assess companies to ensure they meet their sustainability standards.

"Our approach combines screening companies for strong sustainability practices, applying product exclusions, ensuring they outperform their peers and verifying compliance with global norms. These standards are applied internally and for external managers they are incorporated into our request for proposal process, assessed via questionnaire. In some asset classes, such as hedge funds or private credit, managers may not fully meet our policy, but we may still invest when no viable alternatives exist. For more standard asset classes, like equities or high-yield bonds, we ensure full compliance. Each year, we audit the portfolio to identify which parts meet our standards and which do not."

INSURANCE FIRM

4. Indices and metrics

Targets such as maintaining emissions intensity below global benchmarks are common, though firms acknowledge these become moving targets as markets evolve. The use of indices is also more common for listed equities.

"One of our targets is for our fund's carbon emissions to be 90% lower than the MSCI World Index. *However, as more companies reduce their emissions, achieving that 90% threshold becomes increasingly challenging; it's a moving target. We've had to adjust our metrics to keep the investment universe broad enough to maintain returns, while still aligning with our climate goals. We report performance to the board, align our strategy with climate stress testing and link the executive team's remuneration to climate targets."*

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5. Reliance on managers

For firms with significant outsourcing, implementation happens primarily through asset managers. Boards typically approve sustainability metrics, which are cascaded to managers. Sustainability considerations are broadly considered at the manager selection process.

"Implementation is mostly through our two external managers. We set the high-level objectives, and they handle asset allocation and stock selection. At the product level, we define four to five sustainability metrics, which the board approves. These are cascaded to managers and reviewed quarterly."

INSURANCE FIRM

3.3

Regional preferences

Most of the companies we interviewed described themselves as global investors, largely region-agnostic, with some exceptions where investment decisions are guided by liabilities. For example, when the majority of liabilities are denominated in US dollars, portfolios tended to be heavily invested in US assets.

Higher UK exposure is more common in real assets and in nature or impact-focused strategies. Nature is a newer investment theme, so it is natural for firms to explore opportunities in markets they know well.

"We've started exploring nature-based solutions in the UK, which makes up a large part of our portfolio because it aligns with our UK liabilities. We also invest in the US, given the size and depth of that market, and to a lesser extent in Europe. Our US exposure is mostly in public markets, though we do have some private investments. In real estate, we remain heavily UK-focused, but we are beginning to explore opportunities in the US as well."

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Emerging markets (EMs) are also broadly considered by insurers, although they typically represent a relatively small portion of their portfolios. When discussing EMs and decarbonisation targets, insurers emphasised a just transition approach, acknowledging regional differences and focusing on engaging with companies that are willing to reduce emissions.

"We have a US$100mn impact portfolio that allows us more flexibility. Our goal is to invest at least 50% in local areas where we have offices, in both the US and the UK. Some impact funds are specifically designed to generate impact in those locations, while roughly 40-50% of the portfolio can be allocated to emerging markets."

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"We account for regional differences. For example, South African companies aren't on the same decarbonisation pathway as Western European utilities and it would be unfair to hold them to the same standard. We prefer to remain invested and use our position to engage. If it becomes clear a company won't or can't do what's needed, we may divest but not just because emissions are high."

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3.4

Main takeaways

- Insurers apply consistent ESG principles across portfolios while adapting approaches to each asset class, recognising that physical risks are easier to assess in real assets and different considerations apply in equities, bonds, or sovereign debt.
- Listed equities and corporate bonds are easier to manage due to data availability, climate indices and footprinting tools, making them the main focus for decarbonisation and transition strategies, and forming the bulk of portfolios.
- ESG integration in private markets and real assets is often bespoke and deal-by-deal, as limited data, higher transaction costs and methodological uncertainty require careful assessment, with infrastructure and property investments also tracked for social impacts.
- Decarbonisation targets, engagement over divestment, exclusions and sustainability-linked metrics are widely used, with progress monitored through reporting, board oversight and accountability for managers implementing strategies.
- Asset managers play a central role in applying sustainability objectives, particularly for outsourced portfolios, where high-level metrics are cascaded and quarterly reviews ensure alignment with ESG goals.
- Global investment strategies are guided by regional considerations, prioritising markets aligned with liabilities or where ESG outcomes can be effectively tracked, while emerging markets are mostly approached with a just-transition mindset and engagement-focused strategies.

04

A way forward: barriers and further support

04

A way forward: barriers and further support

4.1

Challenges in implementing sustainability

4.1.1 Translating long-term issues into short-term decisions

Firms recognise the importance of scenario analysis, but incorporating long-term, financially material issues like climate into short-term decisions ties into the reliability of long-term data and its ability to influence short-term choices. While regulators have provided helpful guidance, approaches are typically considered on a case-by-case basis; there is no one-size-fits-all approach, according to insurers.

"Embedding long-term, uncertain, but financially material issues like climate into short-term decision-making and business planning, is the hardest challenge. Regulators can nudge markets, and the Prudential Regulation Authority (PRA) *is doing that, but they can't provide a one-size-fits-all framework. It's more cultural, tied to business models and how they evolve."*

INSURANCE FIRM

Another challenge in balancing long and short-term priorities is how insurers respond to short-term financial underperformance of sustainable assets. Member support, in the case of mutual insurers, and long-term goals have provided the foundation for them to remain resilient and navigate difficult times.

"The biggest challenge is managing short-term return expectations, especially when sustainable funds underperform like, for example, in 2022. We survey members on their willingness to sacrifice returns for sustainability. It started as 25% prioritising sustainability, now it's 50/50. So we must balance the pace of change for both cautious and ambitious stakeholders."

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As insurers advance on their decarbonisation targets, they remain cautious, trying to balance ambition with prudence. Several highlighted that the remaining 10-15% of their portfolios, which still need to meet their targets, will be the hardest to address, and will put them in a position where trade-offs are unavoidable, challenging their ability to balance short-term decisions with long-term ambitions.

"In terms of decarbonisation, we're in a good place. We're 92% of the way to our 2030 target, without incurring costs or needing to sell carbon-intensive assets prematurely. But we're realistic: the 2030-2050 phase will be tougher. Costs will rise and trade-offs will become more contentious, especially among shareholders."

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4.1.2 Translating broader goals into asset-specific strategies

Insurance firms are at the stage of developing company-level sustainability strategies. This is an important step, which comes with the challenge of accounting for the differences and specificities of various asset classes.

"Setting achievable and relevant goals is a challenge. It's easy to announce big targets, but they need to be realistic and impactful. Secondly, translating those broad goals into asset class-specific strategies is complex. It's easier with fixed income managers, but each asset class requires a slightly different approach."

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4.1.3 Data

At the data level, insurers highlighted a range of challenges. Coming from a financial background, and despite their engagement with the topic, many admitted it can be difficult to assess whether companies' sustainability claims are credible or simply marketing. Being able to make this distinction would help them separate true leaders from laggards, a crucial need in the context of investing in transition.

"I struggle with transition pathways, knowing whether a company's claims are credible or just public relations. I'm not a scientist, but I need to know whether to divest from laggards or support companies genuinely transitioning. That uncertainty is a real challenge."

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Insurers are increasingly implementing sustainability rating platforms, such as *Sustainalytics*, which was mentioned by several participants. While they noted that rating systems, scenario analyses and environmental, social and governance (ESG) metrics are improving, they highlighted a persistent challenge: the lack of standardised reporting makes it difficult to make decisions when data is not comparable across funds, asset classes, managers or regions.

"There's too much noise, too many models and no consistent standards. You can't make strong strategic decisions if your data isn't clear or comparable. That's where our asset manager helps: they translate complex data into something we can work with. Consistency has improved since we consolidated with one fund manager but, across the broader market, data coverage is still mixed. Everyone is making decisions based on partial data. We probably won't ever have perfect data, but consistency and quality are critical, and we've seen real progress recently."

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"Reporting is a major challenge, mainly due to the lack of standardisation. If I work with five managers, I get five different reporting styles. Regulatory reporting is consistent, but qualitative reporting on ESG strategy, stewardship and metrics varies hugely. Managers might use Sustainalytics, MSCI, Morningstar *or none of them, and none of it aligns. This makes meaningful comparisons difficult without significant investment in your own analysis and systems."*

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The forward-looking nature of the analysis, combined with its uneven availability across different asset classes, adds an important layer of complexity. In this context, managers have played a key role in supporting pension funds on their sustainability journey, helping them to interpret and make the data actually meaningful.

"Reporting from managers has improved significantly. In the past, we only received simple dashboards. Now, there is far more depth and transparency, with explanations for why certain holdings are excluded, flagged amber or red, and how engagement is progressing."

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4.1.4 ESG pushback

Although insurers have been advancing on their sustainability journeys and remain committed regardless of developments in the US, there is still a level of concern. They noted that engagement with companies has become more challenging and they also take into account risks such as litigation.

"Due to the ESG backlash, engagement has become more difficult in some regions; companies sometimes won't even take calls on ESG matters. There's also the risk of legal action."

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"Litigation risk in the US is on our radar. We have investments and equity holdings in US companies and participate in governance voting. Across the industry, this is a growing concern."

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4.1.5 Education and support from asset managers

Insurers mentioned ESG language can often be science-heavy and complex. When combined with various frameworks, it can become overwhelming for some. Simplifying this language can help to drive greater buy-in. Several insurers have been investing in internal training and participating in industry initiatives, but they noted that managers could play an even more important role in this process. Although they observed that the quality of reports is improving, they expressed a desire for more hands-on support, for example, guidance on turning scenario analysis into actionable insights that can inform decision-making.

"Sustainability discussions are often very science-heavy, which can alienate people. This isn't always the most effective way to build advocacy and buy-in. There is a complexity and interconnectedness to sustainability issues. People often want to think linearly - 'if we invest here, that's good' - but these issues are deeply interconnected, and understanding the ripple effects across environmental and social areas requires mental agility."

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"Asset managers could take more leadership on technical expertise and set bolder targets. Currently, many shift the responsibility to asset owners, which transfers risk to us. I'd like to see more progressive thinking, better data, and improved tools for transition risk and scenario analysis. So far, there's little thought leadership from managers. Specifically, they could make scenario analysis more decision-useful by highlighting observed risks across portfolios and explaining how they're adapting, insight that would be extremely valuable."

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4.2

Guidance and support from regulators

We have combined below a selection of the main asks from insurers to regulators. These reflect the areas where insurers see the greatest need for clarity, support and practical guidance. These include approaches to climate scenario stress testing, principles-based guidance and the need for actionable insights, rather than prescriptive, one-size-fits-all rules.

1. Further guidance on fiduciary duty

"How do we weigh sustainability against other risk-return considerations if there's a trade-off? Extending fiduciary duty to include consideration of the world customers retire into is an interesting area. Matching adjustment eligibility is crucial to scale direct investment. Targeted mandates for transition plans would support effective stewardship and align with our use of Transition Pathway Initiative *data."*

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"From policymakers: better clarity on fiduciary duty. From regulators: clearer direction on capital frameworks. For example, if a sustainable asset is lower risk long-term, should that be reflected in capital requirements? Right now, we're left to decide on our own. Clearer top-down direction would be helpful. The European Union was exploring a capital charge for fossil fuel exposure; something like that would be useful to distinguish green from non-green."

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2. Incentives for transition investment

"The PRA *has been quite good on guidance; they just published a new consultation on managing climate risk. But it's not about more guidance, it's about the detail within it. We'd like to see more incentives for investing in the transition, rather than business-as-usual activities. That would be the key ask."*

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3. Reducing reporting burdens

"Regulators should focus on reducing unnecessary reporting burdens; much of what we produce isn't read by customers. On capital requirements, sustainable investments don't get favourable treatment under Solvency II*. In fact, sometimes they're penalised, especially if not sterling-denominated. FX hedging chips away at yield until investments fail to meet hurdle rates. Some capital relief for green assets would help. Green bond labelling has been positive. If holding green bonds required, say, 10-15% less capital, it would boost sustainable investment. Other barriers include* Solvency II *securitisation rules. Requirements like being listed in 'robust markets' or the sponsor retaining 5% of equity risk make many sustainable securitisations unviable. Relaxing those rules for sustainable assets would help."*

INSURANCE FIRM

4. Principles-based guidance

"I'm wary of asking regulators for more guidance. A principles-based approach is preferable; one size doesn't fit all. They need to understand what assets are and what data is available. Don't request data that drains resources but doesn't naturally flow from existing systems; that just diverts time from areas with more impact. Encouragement to invest sustainably would help: for example, capital concessions for sustainable investments. That would drive the market. Also, coordinated disclosure requests would be good. Sometimes regulators ask for information without understanding what's useful or practical for an investment team."

INSURANCE FIRM

5. Reports that lead to actionable insights

"The regulatory side, especially climate scenario stress testing, is quite challenging. There's a recent consultation from the regulator with an overwhelming list of scenarios. We've had conversations with our actuaries: is all that detail meaningful when the data itself isn't reliable? Sometimes it leads to 'spurious accuracy'. So, we need informed, actionable insights, not just volumes of reports. Let's focus on transition and risk management, rather than a single 'green versus not-green' label. Everyone wants something different. The best approach from regulators would be principles-led, not prescriptive. If they set rigid rules - for example, 'Follow TCFD *exactly' - small firms like ours might just exit the market. With principles-based guidance, we can apply judgment. Being overly prescriptive just leads to compliance theatre, not real progress. Let's bring the regulator into the conversation collaboratively, not keep them at arm's length."*

INSURANCE FIRM

6. Benchmarking

"We need clearer benchmarks and scoring. Right now, two different firms can rate the same asset very differently; it's all subjective. The anti-greenwashing rules and labelling standards are moving in the right direction, but we need more speed. The accounting bodies, like the Financial Reporting Council, *and international standards are introducing sustainability reporting frameworks, which helps, but we're not there yet."*

INSURANCE FIRM

4.3

Main takeaways

Insurers find it challenging to translate long-term sustainability risks, such as climate change, into short-term investment and business decisions, with cultural factors and business models influencing how scenario analysis and guidance are applied.

Balancing ambition with prudence is difficult, particularly for the remaining portions of portfolios yet to meet decarbonisation targets, as firms navigate trade-offs between short-term returns and long-term sustainability goals.

Developing asset specific strategies remains complex, with different approaches required for equities, fixed income, private markets and real assets. Insurers emphasise the need for achievable and impact targets tailored to each asset class.

Data reliability and comparability continue to pose a challenge, with managers playing a key role in interpreting ESG ratings, scenario analyses and sustainability metrics to support decision-making and help distinguish genuine transition leaders from laggards.

Despite the ESG pushback in the US, UK insurers' views on sustainability have not changed.

The complexity of sustainability language highlights the importance of education, training and more hands-on support from asset managers to make scenario analysis actionable.

Insurers seek clear, principles-based guidance from regulators, including clarity on fiduciary duty, incentives for transition investments, reduction of reporting burdens, actionable scenario insights and consistent benchmarking, all of which would help translate sustainability ambitions into effective investment practice.

05

Conclusion

04

Conclusion

Throughout our conversations with insurance firms, we saw firsthand the efforts they are making to embed sustainability across their business. The progress over the past few years has been impressive. While firms have traditionally treated environmental, social and governance (ESG) factors on the investment side mainly as risks alongside other material risks, they have only recently started extending these considerations to other areas. This includes how they engage with underlying investees (directly or through managers), how they select investments (with some moving into transition assets) and how they integrate sustainability into underwriting.

This research, designed as a first step to map where the industry stands today, shows the ambition and the constraints shaping insurers' sustainability journeys. The sector is eager to deepen its role, engage with industry initiatives and contribute to a more sustainable financial system. While challenges remain, particularly in aligning underwriting with investment, developing capacity and reconciling long-term climate horizons with shorter business cycles, insurers have already laid important foundations. From here, the task will be to build on this progress, move from risk management to greater impact, and identify the forms of support and collaboration that can best accelerate the transition.

Of course, pursuing this ambition comes with its own set of challenges. Leadership commitment has played a decisive role in building momentum and institutionalising sustainability, with many Chief Executive Officers and boards now directly engaged through dedicated committees, a good practice we identified during conversations. Alongside leadership buy-in, evolving regulation has been another important driver. Together, these forces have helped insurers establish themselves as 'responsible investors'. At present, this often translates into stewardship and exclusion strategies, with fewer firms yet deploying capital intentionally to generate measurable impact.

One persistent difficulty has been ensuring consistent integration across different parts of the business. Underwriting and investment strategies, developed in isolation, are beginning to converge into organisation-wide climate approaches designed to ensure coherence across scenarios, frameworks and language. Insurers apply ESG principles consistently across portfolios but are learning how to adapt them to each asset class, which requires different methods of analysis and risk assessment. The support from managers will be crucial here.

When it comes to regulation, insurers are looking for greater clarity and alignment. They stress the value of a principles-based approach that avoids unnecessary reporting burdens and focuses on practical, comparable data. Many pointed to the importance of regulatory incentives, such as capital concessions for sustainable investments, to encourage allocation to transition opportunities. Without such incentives, insurers may choose non-impact assets with similar return profiles, despite their willingness to support the transition.

Sponsors' views on the research

Federated Hermes

As an asset manager, we are tasked with achieving our clients' investment goals. However, this must be done with a clear consideration of long-term sustainability risks and opportunities. It is therefore unsurprising to see the insurance sector increasingly factoring climate, and more broadly sustainability, into both underwriting risk assessments and investment strategies.

While exclusionary approaches help to remove bad actors from the investment universe, a structured approach to sustainable investing is essential. This means assessing not only market leaders, but also companies in transition. Strong engagement plays a critical role in this process, across both equity and fixed income investments.

It would be encouraging to see insurance regulators actively promote sustainable investing, by introducing capital charge incentives for investments across both public and private markets, where sustainable opportunities are abundant.

Douglas Anderson,
Head of Consultant Relations,
Federated Hermes Limited

Fidelity International

This report shows that a lot of progress has been made in integrating sustainability considerations into insurers' underwriting and investment businesses, but challenges remain. As regards investment-related integration, the report highlights the need for investible and solvency-efficient sustainability solutions, better access to decision-useful data and greater clarity around appropriate time horizons.

As long-term, buy-and-hold investors, insurers are highly sensitive to permanent losses of capital that can arise from sustainability risks. As a result, many have highlighted the need for forward-looking and qualitative assessments of these risks within their investment portfolios that do not rely solely on backward looking data and company commitments.

Fidelity has developed several tools to help address these issues, including integrating sustainability characteristics into our fundamental company research through proprietary environmental, social and governance (ESG) ratings. Our analysts assess the material sustainability risks and opportunities of issuers they cover, and the extent to which these are well managed both now and into the future. We believe this approach addresses some of the key challenges faced by insurers in relying on external data sources, and gives a more holistic view of their bottom-up and aggregate portfolio sustainability risks.

We also aim to address systemic risks like climate change through multi-year thematic engagements and by integrating estimated effects into long-term capital market assumptions that support strategic asset allocation.

Fidelity offers a range of solutions for insurance clients to help manage their carbon and nature-loss exposures, and take advantage of transition trends. These include broad ESG strategies, real estate impact strategies and thematic approaches, such as transition materials and blue bonds, all of which can be tailored for insurers' needs. As regulatory approaches diverge, adopting an active, flexible approach to investing sustainably can help insurers respond to a fast-changing environment and better manage risk/reward trade-offs.

Ghislain Perisse,

Head of Insurance Solutions Europe, *Fidelity International*

Gresham House

At *Gresham House*, we welcome this report's contribution to advancing understanding of how insurers are embedding sustainability across investment and risk frameworks. The findings reflect a shared ambition across our industry to translate sustainability commitments into tangible action, while managing the practical realities of regulation and portfolio construction.

The diversity of insurance models, from life and annuity providers to general and mutual insurers, inevitably shapes the types of investments they can pursue, influencing liquidity preferences, liability durations and the scope to invest in long-term, sustainable assets. While *Solvency II* does not prohibit impact investments, it shapes what is possible, influencing both the structure and scale of insurers' sustainable allocations. Capital concessions for sustainable investments would certainly help to encourage progress.

Greater collaboration between insurers, asset managers and policymakers will be essential to ensure regulation evolves in step with the market. A principles-based approach that recognises the inherent stability and value of sustainable real assets would help to unlock meaningful capital flows and accelerate progress toward shared transition goals.

At *Gresham House*, we focus on delivering financial returns for clients by investing in the global themes shaping our future: nature and climate, energy transition, social impact and productive growth capital. Through that focus, we see firsthand the role such assets can play in supporting both financial resilience, and measurable environmental and social impact.

Heather Fleming,

Managing Director, Institutional Business, *Gresham House*

Mercer

This report provides valuable insights into insurers' views and priorities when it comes to sustainable investing, and many of the themes highlighted align with the discussions we are having with our insurance clients. Based on our client conversations and experiences, we have identified three main challenges that insurers are facing:

1. Setting climate transition objectives across assets and liabilities

One of the challenges some insurers face is quantifying climate risk for their *ORSA*s. Further to this, the *PRA* observe in CP10-25 that firms' investment strategies need to more clearly incorporate climate risk. We have helped clients address this through climate scenario analysis, setting climate-related targets and transition plans.

2. Investment into climate adaptation opportunities to hedge increased physical risk in liabilities

The investment universe for climate-related strategies is complex and evolving. It is therefore important to understand the interaction between the physical risks in liabilities and how climate-related investment strategies can be used to hedge these risks. We are increasingly helping clients understand and evaluate these investment opportunities using solutions such as our transition pathway.

3. Setting impact objectives and increasing impact allocations

Some insurers are now setting dedicated impact objectives within their investments. It is important when doing so they are clearly articulated and measurable, with the expected financial impact of such investments being evaluated to understand any potential trade-offs between financial returns and the societal and environmental impact.

Overall, many insurers have made good headway around incorporating sustainability criteria within investments, but this is still work in progress. Areas around policy objectives, risk measurement and integration with underwriting risks remain of focus for most non-life insurers.

Vanessa Hodge,
Sustainability Integration Lead,
Mercer

SAIL Investments

This report provides a clear and timely view of how insurers are responding to the growing financial materiality of climate and nature risks. It reflects a sector that recognises the systemic scale of these challenges while navigating regulatory constraints, data gaps and the realities of insurance balance sheets, which are dynamics we recognise closely.

At *SAIL Investments*, we work in the parts of the real economy where these risks are most visible. In agriculture, forestry and other land use supply chains, often at the frontier where commodity production, deforestation pressures and climate volatility converge, we see how sustainability-driven improvements can strengthen company resilience. Better traceability, reduced land-use risk and improved operational practices contribute to fewer disruptions, more stable cashflows and stronger credit performance. For insurers concerned with solvency and long-term value, these linkages matter.

The report also highlights insurers' growing need for information that is genuinely decision-useful. While frameworks such as the *Taskforce on Climate-related Financial Disclosures*, *Taskforce on Nature-related Financial Disclosures* and *International Sustainability Standards Board* bring greater consistency, managers must help reduce reporting burdens by focusing on insights that clarify real-economy risks and transition pathways.

We welcome this report, and look forward to continued peer-level dialogue on building resilience and long-term value.

Michael Schlup,
Chief Sustainability Officer,
Member of the Investment Committee,
Sail Investments

Solas Capital

Structuring energy efficiency debt for MA eligibility: a blended finance solution

The matching adjustment (MA) eligibility constraint identified by insurers points to a structural challenge: many climate-positive assets simply do not meet the criteria for fixed, predictable cashflows and investment-grade ratings that MA portfolios require. Yet this constraint also clarifies the pathway forward: assets that can meet these requirements while delivering climate impact become relevant to insurers.

Energy efficiency infrastructure debt represents a compelling example. Building retrofits and behind-the-meter renewable installations generate contracted, inflation-linked revenues from creditworthy counterparties, precisely the cash flow characteristics insurers seek for MA portfolios. The challenge has been that individual projects often fall short of investment-grade ratings, creating the capital treatment barrier insurers describe.

As insurers develop organisation-wide climate strategies integrating underwriting and investment, energy efficiency assets offer dual benefits: direct decarbonisation impact through financed emissions reductions, and indirect impact by enabling the broader built environment transition. Rather than asking regulators to relax MA criteria, this approach demonstrates how credit enhancement can bring transition assets within existing frameworks, translating sustainability ambition into MA-eligible investment opportunities.

Energy efficiency infrastructure: bridging the private markets implementation gap
As insurers note, private markets are critical to advancing decarbonisation strategies, yet present distinct implementation challenges compared to listed assets. From Solas Capital's experience of investing in energy efficiency and distributed renewables, we see how these challenges can be addressed through structured product design focused on energy efficiency infrastructure debt.

Building retrofits and behind-the-meter renewable installations generate contracted, inflation-linked revenues from creditworthy counterparties, cashflow characteristics that align well with insurance portfolios. Unlike the deal-by-deal approach many insurers described for private markets, aggregating these assets into diversified portfolios creates the scale and standardisation that make systematic ESG assessment feasible.

The persistent challenge insurers identified - limited data, methodological uncertainty and difficulty verifying sustainability claims in private markets - requires structural solutions. In energy efficiency, measurable energy savings provide transparent impact metrics, while the underlying assets (LED light bulbs, solar installations, heat pumps) offer tangible collateral that traditional infrastructure investors understand.

For insurers managing the trade-offs between listed and private assets, energy efficiency infrastructure occupies a valuable middle ground: the cash flow predictability and credit quality of infrastructure debt, combined with direct, measurable decarbonisation impact in the built environment - one of the highest-emitting sectors requiring urgent transition capital.

Paul Kearney,
Partner & Co-Founder,
Solas Capital

Appendix

Participants who gave permission to be named

1. Beazley plc
2. Foresters Friendly Society
3. LV
4. M&G Investments
5. Metfriendly
6. MS Amlin
7. NFU Mutual
8. OneFamily
9. Phoenix Group
10. Scottish Friendly
11. Simply Health

Questionnaire

1. How would you classify the level of sustainability literacy across your organisation, from leadership to frontline teams? Are there efforts to build internal capacity?
2. How does your organisation split managing investments internally and appointing external asset managers? Have you established any partnerships with managers for any parts of your investment portfolio?
3. How do you integrate sustainability and climate risk across underwriting, investment and risk management? Is this integration consistent across departments?
4. Do you have a sustainable/responsible investment strategy? What internal policies or frameworks guide this strategy? What topics do these policies cover? Are they developed in-house, or aligned with external frameworks like the *Taskforce on Climate-related Financial Disclosure* (*TCFD*) or the *Sustainable Finance Disclosure Regulation* (*SFDR*)?
5. Are there specific themes you prioritise, such as nature, gender equity or social inclusion? How do these themes influence your risk mapping, investment selection and stewardship strategy? Do you think it influences one more than another?
6. How do *Solvency UK* capital requirements affect your ability to invest in sustainable or nature-positive assets, particularly in emerging markets? What changes would unlock more capital in this space?
7. How are regulatory frameworks, like the recent *Prudential Regulation Authority* (*PRA*)'s CP10/25, influencing your governance, scenario analysis and risk management practices? What support would improve alignment between regulation and sustainability goals?
8. Is nature considered within your risk and opportunity framework?
9. How do you assess and manage physical climate risks and nature-related impacts across your portfolio? Do these factors influence your asset allocation?
10. How do you implement your sustainability strategy across asset classes (eg equities, fixed income, private markets, real assets)? What role do solvency rules play in shaping these decisions? [Are you pursuing impact strategies within private markets, such as energy transition or building decarbonisation? If not, what would it take to move in that direction?]
11. Which barriers do you face when translating sustainability ambitions into implementation? Have recent regulatory discussions opened up new avenues for action?

12. Do you have any local or UK-specific investment ambitions, or is your approach region-agnostic? What about emerging markets?

13. How important is stewardship and engagement in your strategy? How do you work with asset managers and portfolio companies to advance sustainability goals? Are you reporting on stewardship?

14. In your view, what are the biggest internal or structural barriers to progressing further on sustainability or impact investing? Which tools, frameworks or internal capabilities would help accelerate your sustainability efforts?

15. What kind of guidance or support would you like to see from regulators like the *PRA*? What role do you think your asset managers should play in this journey?

References

1. **World Economic Forum, 2025**, *Global Risks Report 2025*, viewed September 2025, <https://reports.weforum.org/docs/WEF_Global_Risks_Report_2025.pdf>.

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3. **United Nations Environment Programme Finance Initiative (UNEP FI), 2012**, *The Global State of Sustainable Insurance – Understanding and Integrating Environmental, Social, and Governance Factors in Insurance,* viewed September 2025, <https://www.unepfi.org/industries/insurance/the-global-state-of-sustainable-insurance-understanding-and-integrating-environmental-social-and-governance-factors-in-insurance/>.