

IAG New Zealand submission

to the

External Reporting Board

on the

**Strategy, and Metrics and Targets for NZ CS 1
Consultation Document**

29 April 2022



1. Introduction

- 1.1 This submission is a response by IAG New Zealand Ltd (IAG, we) to the External Reporting Board (XRB), on the Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1) Strategy, Metrics & Targets Consultation Document.
- 1.2 IAG is New Zealand's leading general insurer. We insure more than 1.8 million New Zealanders and protect over \$650 billion of commercial and domestic assets across New Zealand. We receive more than 650,000 claims a year and pay \$1.599 billion in settling them.
- 1.3 IAG has been active in responding to climate change, both from a mitigation and adaptation perspective, for many years. We are founding members of the Climate Leaders Coalition and a member of the Sustainable Business Council. We have been carbon neutral since 2012 and have a target to halve emissions by 2030 and to be net zero by 2050. IAG New Zealand is a wholly owned subsidiary of the ASX-listed Insurance Australia Group Ltd, which commenced disclosure aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in 2019.
- 1.4 In this submission we have provided our general response to the consultation document and some specific recommendations relevant to our business.
- 1.5 IAG's contacts for matters relating to this submission are:

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2. General comments

- 2.1 IAG welcomes the release of the consultation document. We have actively supported the introduction of mandatory climate-related disclosures in New Zealand and support at a high level the proposed Strategy and Metrics & Targets requirements outlined in the consultation document for Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1).
- 2.2 As an insurer, we are already seeing the financial impacts of climate change, with recent loss events including the two flooding events in Westport, and more recently Tairāwhiti and Auckland/Northland. Our parent company in Australia has seen impacts through bushfires and severe weather events over recent years, especially this year's storms and flooding. Climate change is, for us, a risk that cannot and should not be ignored, and it is no longer a future risk – it is here now.
- 2.3 IAG has contributed to, and broadly supports, the Insurance Council of New Zealand's submission in relation to this consultation. The purpose of this IAG-specific submission is simply to emphasise and elaborate on some key areas of interest to us as an entity.
- 2.4 IAG supports the intent and the content of the proposed disclosures. They will provide the necessary impetus for companies to embed climate change considerations into the core of their businesses, and for the end users to get a clear understanding of how they are managing their climate risks.
- 2.5 With that ultimate purpose in mind – clarity of understanding for end users – we do have concerns about aspects of the disclosures, as currently framed. These are broadly around the definition of 'actual' impacts, adoption provisions for value chain emissions, materiality, and guidance. In our view there is a risk that moving ahead of capability or established methodology, or allowing for large degrees of uncertainty, will result in a more conservative, risk averse disclosure response. This would undermine the overall objective of the disclosure regime. We elaborate on our specific concerns around this below.

3. Specific comments

Strategy

- 3.1 While the disclosure regime rests on the fundamental importance of the disclosure of the financial impacts of climate risks, and we support this, we suggest further clarity is needed to ensure more certainty and more consistency of information between climate reporting entities (CREs).

Definition of ‘Actual Financial Impacts’

- 3.2 In terms of ‘actual financial impacts’, we request a more concrete definition than what is provided. This is particularly important in the context of general insurers, who by our very nature deal with the actual impacts of climate-related events daily. Our job is managing risk, and a key aspect for many lines of insurance is weather-related risk. But in terms of the ‘actual’ impacts of climate-related events on our business, more clarity is needed to ensure we can provide information that is both accessible, and of use, to end users.
- 3.3 Specifically, the XRB needs to be clear about whether disclosures should include all ‘climate-related’ financial impacts that have already occurred (ie, all weather events), or just those that can be attributed to climate change itself. If the latter, this is quite challenging to calculate. Scientists have done research on some recent flooding events in Westport and Canterbury, and have calculated a 10% climate change attribution, but such analysis is not available for all loss events relating to weather that we have suffered in the past financial year. There would also need to be clarity on what level of calculated attribution would be necessary for a specific weather event to be disclosed, and what the criteria for attribution is. Our recommendation is that the first option is chosen – disclosure of all ‘climate-related’ financial impacts, so all impacts as a result of weather events.
- 3.4 Finally, it is also assumed that the definition of ‘actual’ only relates to impacts in the last financial year. Confirmation of this, and the questions raised above, in the requirements themselves, and not just the guidance, would be preferable.

Definition of ‘Potential Financial Impacts’

- 3.5 In terms of ‘potential financial impacts’, guidance is needed on how we deal with the uncertainty that exists in regard to how we articulate these impacts. We note that ICNZ has proposed a more graduated adoption provision in relation to this. IAG’s view is that better clarity and guidance would allow us to meet the existing timeframes proposed, without the need for a more graduated option. Given that financial disclosures are at the heart of this regime, everything possible should be done to ensure clarity and consistency and therefore enable timely and useful disclosures.
- 3.6 There are two key aspects to the clarity that is needed here. One relates to materiality and how we determine what impacts are considered material – and we provide more on this under the ‘Materiality’ section below. The second relates to clearer guidance around the level of detail required when disclosing potential financial impacts. Without best practice to refer to in this space, there will be a real risk of inconsistent, and potentially inaccurate, disclosures, especially if CREs err on the side of caution.
- 3.7 Another aspect requiring clarification around ‘potential financial impacts’ is how CREs should deal with the fact that there could be potential impacts that will not be realised due to business decisions CREs’ can make. This comes back to the specific nature of general insurers, and the fact that we are in the business of pricing the impacts of climate. This makes us unique among the other CREs. If an insurer does not regularly reflect the changing impacts of the climate, it won’t have a business. As such, we will always consider ‘potential financial impacts’ through a lens of those impacts which we can, and can’t, mitigate through pricing and other risk mechanisms.
- 3.8 Clarity from the XRB is necessary as to whether they expect CRE’s to disclose the potential impacts either a) after these mitigation steps have been taken or b) assuming no mitigation steps were taken. We would suggest the second option is of limited use to end users, as businesses won’t just allow these impacts to happen and so pretending they would for the purposes of disclosures would give a misleading picture. Another solution here could be insurer-specific guidance from the XRB on how we deal with both actual and potential financial impacts, which takes into account our unique situation.

Transition and Adaptation Plans

- 3.9 The only other specific comment we have on the Strategy section, other than those already covered in the ICNZ submission, relates to adaptation and transition plans. We note that the XRB is proposing that disclosure and transition plans be required in Year 2, but adaptation plans not be disclosed until Year 3. We disagree with this approach and suggest the timing be aligned for both plans, requiring both to be disclosed in Year 2.
- 3.10 As an insurer, IAG has been advocating the importance of adaptation for many years now, recognising that we're already seeing the impacts of climate change. Allowing more time for businesses to prepare adaptation plans suggests it is less important than mitigation and transition, which we believe is untrue. All aspects of climate change need to be considered by businesses in unison. We also note that the Climate Leaders Coalition is currently consulting on their updated member statement, which would require members to have an integrated climate action plan covering mitigation, transition, and adaptation – all within the same time horizon.

Metrics & Targets

Full value chain emissions

- 3.11 IAG is mature in terms of carbon emissions reporting and disclosure, but we also acknowledge that what is being proposed around full value chain emissions in particular, will require a massive capability and data lift from CREs – even for those like us who have been reporting on emissions for years now.
- 3.12 We strongly encourage the XRB to consider a slightly different approach in relation to full value chain emissions. This could take one of two forms. The first option would be a first-time adoption provision in relation to full value chain emissions – and specifically insurance underwriting. Given the lack of any methodology in this space, let alone a well-established one, there is a real risk that anything disclosed in Year 1 will be very estimated, and likely found to be inaccurate once more detailed reporting is available. This does not seem to be of benefit to end users, therefore defeating the purpose of the disclosures. We therefore would instead support providing a qualitative update in Year 1 as to our progress and approach towards measuring underwriting emissions, with initial quantitative emissions to be disclosed in Year 2.
- 3.13 The second option would be an explicit statement that CREs are not required to report full value chain emissions in Year 1, or even in Year 2, but are required to give a detailed disclosure as to their progress towards reporting each category of Scope 3 emissions and their timeframe for complete reporting. At the very least, the XRB requirements should be much clearer about what level of disclosure is required in Year 1 in relation to Scope 3 emissions and clarify whether providing no data for certain categories in Year 1 would be acceptable.

- 3.14 The XRB should rest assured that CREs will not be resting on their laurels in regard to full value chain emissions reporting. IAG is already developing a net zero roadmap for full value chain emissions. The request for extra time is simply around ensuring disclosures are of high quality and are of as much use for end users as possible.

Mandatory nature of metrics

- 3.15 Clarity is requested around the mandatory nature of the cross-industry metrics listed in paragraph 4. The wording says that we must disclose metrics ‘consistent with the climate-related metric categories listed’, but it isn’t absolutely clear that the categories listed are prescriptive (i.e., that we need a metric relating to each category). An argument could be made that a disclosure could cover some but not all of these categories, and still adequately address how a CRE is managing their climate-related risks through metrics, especially if they focused on the metric categories they considered to be most material to their business.

GHG Emissions Report

- 3.16 In terms of the requirement for a standalone GHG emissions report, in addition to the disclosure, our reading of the draft requirements is that where the contents required by this document are already covered in content we already have elsewhere – for example [IAG’s Data Summary](#) – we would simply link to that, rather than create a brand new document solely for the purpose of this disclosure. If this assumption is incorrect, greater clarity should be provided.

Assurance

- 3.17 In relation to assurance, IAG NZ currently has our emissions assured as part of a group-wide assurance engagement with KPMG Australia. Our expectation is that such an assurance arrangement for a New Zealand entity is sufficient to meet the XRB requirements. However, if something additional and specific is to be required, this should be made clear in the final requirements.

Materiality & Guidance

- 3.18 Materiality is a key aspect of this disclosure regime, and we have some concerns about the current requirements and guidance around materiality. Given the attention that end users and regulators will be paying to these disclosures, we want to ensure that we get everything right – especially in regards to what we choose to disclose, and what not to.

- 3.19 Materiality in this area is far more complex than in traditional financial reporting, especially given the range of lenses a CRE has to apply to materiality in different parts of the disclosure. There is a need to either make the guidance more specific and useful, or to require that materiality measures applied by CREs are disclosed per section. The latter option would be in our view be more practical, and allow CREs to be very transparent about the amount of financial impact or carbon emissions, for example, that they consider to be material. However, a combination of both options will likely deliver the best outcome.
- 3.20 At the very least, given that the XRB's proposed requirements go further than current international standards, and therefore New Zealand really will be leading the way, there is a need for highly practical and useful guidance and advice to ensure we're all approaching difference aspects of the disclosure in a uniform way. This should be provided in a way which allows for as little subjective interpretation as possible, and also gives clear sector-specific advice where this is needed.
- 3.21 The current proposed requirements around materiality are, in IAG's view, too wide ranging and not precise enough for us to have the level of certainty needed to make a clear materiality determination. Specific materiality requirements per section – for example in relation to financial disclosures separately to GHG metrics – could be a useful step.
- 3.22 The importance of getting the materiality requirements right is increased by the fact that there is no body for CREs to consult with to get advice on whether they are making the right assumptions and are on the right track to get their disclosures as 'right' as possible. In the absence of such a body, clear and concrete definitions of materiality, and additional guidance on all aspects of the requirements, will be absolutely critical for the success of this regime.