

Insurance



Climate Readiness

In the face of ever-increasing global climate challenges, Hong Kong, as a bustling metropolis perched on the cusp of environmental change, is particularly vulnerable to extreme weather events, rising sea levels, and other climate-related risks. This vulnerability has become a pressing concern for the insurance sector.

With each passing year, the frequency and intensity of natural disasters have intensified, underscoring the critical need for the insurance industry to strengthen its defences against the uncertainties that lie ahead. The industry is significantly impacted by climate change, as the heightened physical and transitional risks it poses require a reassessment of how these risks should be incorporated into the current equation.

A concerted effort from all stakeholders is necessary to transform Hong Kong's insurance industry into a resilient and environmentally responsible sector. By fostering awareness, integrating climate considerations, and implementing transparent standards, the industry can contribute to both local sustainability goals and global climate resilience efforts.

Current State

Despite the recent shifts in insurance claiming and earning patterns, many insurers have started early to incorporate climate change considerations into their business models and prepare for changes in the insurance landscape. A Climate Risk Measurement Survey commissioned by Hong Kong Institute for Monetary and Financial Research has shown that more than half of insurers (57%) of insurance practitioners started measuring climate risk 2 years ago or earlier, compared to only 20% of banks and asset managers.

Policies and Regulations

- Hong Kong's Climate Action Plan 2050
- Policy Address 2022
- Development Roadmap for the Insurance Sector in Hong Kong
- Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area
- Green and Sustainable Finance Cross-Agency Steering Group (CASG)



Background

Business Environment Council (BEC) is supported by NWS Holdings Limited in conducting a study over the group's climate readiness for four selected sectors, namely construction, insurance, logistics, and facilities management. The study aimed to comprehensively evaluate businesses' understanding of the concept of net-zero and their efforts towards achieving net-zero goals. It also sought to identify good practices, priorities and measures that can assist businesses in reaching net-zero targets. The study employed a comprehensive approach, including desktop research, stakeholder engagement, focus group discussions with sector experts, and an online survey to gather insights and perspectives. This Sector Briefing focuses specifically on the insurance sector, summarising its performance, challenges, and recommendations for achieving a sustainable and environmentally friendly future. By providing actionable insights and supporting the industry's transition to a low-carbon economy, the briefing aims to contribute to the insurance sector's efforts in addressing climate change.

Challenges

The insurance industry is greatly threatened by the emergence and deterioration of climate change. The insurance industry is extremely sensitive to risks, due to the nature of the insurance business, and the physical risks associated with climate change, as well as its unpredictability, will force the industry to transform how risks are traditionally assessed and translated into premiums that will reflect future risks.



Low Awareness and Limited Understanding of Climate Transition

- The ESG or climate concepts are not yet popularised
- Low popularisation of green insurance products among the general public
- Difficult to account or quantify climate risks into life insurance products in the underwriting process



Low Popularity of ESG Insurance Products

- Challenges of effectively communicating the benefits of ESG insurance products to customers



Risks of Greenwashing

- Many funds or investment portfolios that claim to be sustainable might actually contain unsustainable assets



Difficult in Deducing Scope 3 Emissions

- Lack of standardised methodologies to compare emissions across companies in the insurance sector and hence lead to inconsistent reporting practices
- Difficult to determine the boundary setting in Scope 3 calculations as the sector interacts with various stakeholders and diversified activities



SME's Passive Role in Decarbonisation

- Smaller insurers are less active in decarbonisation, compared to larger companies

Recommendations

Addressing climate transition in Hong Kong requires the collective efforts and involvement of various industry stakeholders. Collaboration among industry players is crucial to share best practices, develop innovative solutions, and drive the adoption of sustainable technologies and practices.



Statutory Body

Enforce Clear Guidelines and Standards

- Mandate insurers to integrate climate considerations into their business operations

Extend ESG Disclosure to Non-Listed Companies

- Boost climate data availability and transparency but enable the public and investors to holistically scrutinise the ESG performance of insurers

Financial Subsidies

- Establish financial subsidies to actively promote and invest in sustainable products for market stabilisation and balance with financial returns



Industry Practitioners

Integrate Climate Issues into the Industry

- Insurers should further the integration of climate issues into the industry

Incorporate Climate-related Risks and Opportunities into Business Strategies

- Actively conduct comprehensive risk assessments and scenario analyses

Develop Innovative Products

- Develop innovative insurance products to address emerging climate risks



Joint Effort

Foster Partnership

- Foster partnerships with climate experts, research institutions, and environmental organisations

Capacity Building

- Equip insurance professionals with skills to address climate concerns and provide clients with climate-resilient solutions
- Increase collaboration between the sector and academia

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Business Environment Council Limited

2/F, 77 Tat Chee Avenue, Kowloon Tong, Hong Kong

T: (852) 2784 3900

F: (852) 2784 6699

E: enquiry@bec.org.hk

https://www.bec.org.hk



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