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InsTech London Podcast 175
Katie Lennon, Head of ESG, UK & Lloyd's, AXA XL
ESG - the insurer's perspective

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Matthew: Katie, really pleased to be talking to you today. I had a call with somebody yesterday who said that he thinks these podcasts are too short. Given how much we've got to cover, you might have to make this an extra special long one today.

Katie: Thanks so much for having me. I'm sure we could run for several days if he needed us to.

Matthew: A several day podcast with Matthew Grant; I think that might definitely get people turning off. Anyway, I want to talk a bit about your background first. We'll then dig into what's happening with AXA XL and the evolving world of climate change and ESG. You've got a degree in Earth Sciences from Oxford. You started off outside of insurance as a geologist at a gold mine. You then joined Catlin, which through various acquisitions has become part of AXA XL. Eight years ago you were an underwriter. You are now co-chair of the Product

Innovation Facility in Lloyd's, and you took on your current role in September 2021. You have a lot going on there; is there anything I missed that we should also mention?

Katie: Yes, I like to keep myself busy. There's a couple of other market forums that I'm a part of. I'm deputy chair of the IUA Climate Risk Committee and I sit on the LMA ESG working group. You'll find me pretty much everywhere to be honest.

Matthew: You've given two acronyms in there. LMA is the London Market Association. What is the IUA?

Katie: It is the International Underwriting Association, which brings together those non-Lloyd's markets in the UK.

Matthew: Now we're going to be talking about ESG. That stands for environmental, societal and governance, and it's quite a wide ranging area of criteria. We tend to focus quite a lot on the 'environmental', but as you're going to mention, the societal and government sides are also important. A lot of companies are now starting to allocate someone in a role like yours. Can you talk a bit about what this means for AXA XL from your perspective, and from the company's?

Katie: I think one of the reasons that I was approached to take on this position was because of the unique business perspective that I bring to it. I'm not coming from a strict sustainability background; I very much come out of the business having been an underwriter and working in strategy and portfolio management. What it means within the UK and Lloyd's business unit is really bringing to life what ESG means from a client perspective in particular. When we built up our ESG strategy, we split it into two strands. The first is our business operations. This refers to what it means for us, which includes all of our carbon reduction planning, waste and water management, Inclusion & Diversity and talent management strategies, our board governance and the diversity policies that we have there as well.

The second really big part that I've been focusing on is the clients and products and services piece. We need to make sure that we know how to respond as our clients go on these big ESG journeys. What is it that they're asking from us? What can we deliver? As a fiduciary responsible insurer, we need to make sure that we're also getting due consideration in the changing risks faced by our clients as they go on these different journeys.

Matthew: AXA is often one of the top companies identified in this space. Before we move on, I want to hear a bit about your first career as a geologist in an African gold mine. Through this you've got a bit of perspective firsthand of what it means to be a client and also somebody who's actually responsible for some emissions.

Katie: Yes, it was a really interesting time. I was an exploration geologist at what I think was officially the first gold mine in Ethiopia. They pulled their first gold bar a couple of years ago now, so seven years since I was there. On the ground I experienced firsthand what the social impact of building such a large extracting business was. It was also really interesting to see the balance of the economic draw of building the mine, and the benefits that it was going to create for all of those communities. So yes, I've experienced firsthand the very fine balance of introducing businesses into very rural communities.

Matthew: I think sometimes the external world can be too critical of people that are responsible for some of the emissions, and the speed at which they can make change. But I want to come back to ESG. One of the things we found during our research on this is that it's quite difficult to come up with a consistent terminology for how companies are looking at climate change. Is there a simple way to describe what the priorities are for organisations now within the broad category of ESG when thinking about the climate?

Katie: It's really important for everybody to remember that climate is only one part of the 'E' aspect of ESG. It's very understandable that as an industry we have focused on climate risk and climate change, because it's such a huge source of loss for us. Also, as humanity, we're working together to address the climate crisis, so it's understandable that it takes up much of our consideration. But all parts must be considered when putting together an ESG strategy, particularly because so many parts of ESG converge together. For example, when thinking about the energy transition as part of the 'E', there's the piece there around a just transition. This means making sure that all parts of society are included in the energy transition, and also making sure that clients and insurers address talent management and upskilling in a way that enables a just transition.

Matthew: Another term I've heard you use is climate poverty. Is that connected to a just transition, where some parts of society are going to have issues if we move away too quickly from fossil fuels?

Katie: I think the term there is power poverty. As investors and insurers pull out of covering certain aspects of the energy industry such as coal, we need to make sure that parts of the world aren't negatively impacted. This involves making sure we don't disrupt the economic development of countries that are still wholly reliant on coal, for example.

Matthew: In terms of your role at AXA XL - you've been given a very important mandate, but I'm sure a lot of people you're working with have got their own business goals and reporting lines. How do you get things to actually happen within the organisation?

Katie: That's a great question. I've only been in this role for a couple of months, but my first priority is making sure that we communicate our purpose widely across the organisation, so that our colleagues really understand what it is that they're getting behind. It's also so that they can be a part of it. The engagement has been incredibly positive in getting our colleagues to understand the AXA purpose: acting for human progress by protecting what matters. When we translate that into what matters for us at AXA XL within the UK, we need to make sure that our colleagues can really understand how the actions they're taking are contributing to that. We've also pulled together networks of people. We've got a formal ESG network now that is set up within our business. It is a knowledge and idea sharing forum. We've made sure to select individuals that we know are changemakers who will really contribute to the cultural and behavioural shift which is required for companies to act with purpose.

Matthew: That links back to something you said at the beginning about business operations being one of the areas of focus. It seems like it's important to engage people in what they can actually do themselves in their day to day jobs, and for them to understand the broader implications of what they're doing and how it makes a difference. Is that part of the approach you've taken there?

Katie: Yes, absolutely. We've pulled out what we like to call our 'good news stories'. This helps to make sure that our colleagues understand how what they're already doing is contributing to our purpose. It's been incredibly important because it's allowed people to reframe some of the stuff that they're already doing before we talk about next steps and new ideas.

Matthew: What is a good example of one of your ‘good news stories’?

Katie: Some of the stories are around the products and services that we already provide to our clients. For example, our life, accident and health offering services people who are otherwise financially excluded from certain insurance products due to long term health conditions. Another example is how we’ve revamped our office building during the COVID lockdowns. We've made really proactive choices such as funding LED lighting, which has massively contributed to reducing our carbon footprint. We've made those kinds of decisions for reasons other than ESG impact, but actually making people realise that they're already contributing in a huge way to our purpose has been really impactful.

Matthew: Can you give some examples of where you have started to measure impact and change across the organisation?

Katie: We have the AXA climate reports, which are published by AXA group every year. They are published in adherence to the Task Force on Climate-Related Financial Disclosures.

Mid roll

(click) – Did you get that – TCFD -Task Force on Climate Related Financial Disclosures- doesn’t exactly trip of the tongue does it – but it's worth finding out more about that means – Katie is about to explain some examples, but look out for our report we describe that in more detail. Also – you’re about to hear about Scope 1, 2 and 3 emissions – if you aren’t familiar with those well hang in there Katie explains in a minute – and we also cover them in our report – Ok – back to Katie (click)

In these reports, we have warming potential measurements on our investment portfolios. We also talk about volumes of client engagement. There is a particular focus in those reports on the investment portfolio of AXA group because it is made up of so many different entities. But for general insurers and P&C insurers like ourselves, it is much more challenging. Where we have started to focus is on Scope 1, 2 and 3 emissions. The NZIA (Net-Zero Insurance Alliance) was convened under the UN last year, and one of the things that they're hoping to tackle is a Scope 3 emissions framework to help insurance companies really start to measure and manage that metric.

Matthew: Are your climate reports publicly available for anyone that’s interested in how you’re measuring impact?

Katie: The AXA climate reports are available online, but there are a lot of internal metrics that we use as well that are not published. A lot of them are qualitative, such as our metrics around engagement. We also have some of the D&I disclosures, where we talk about gender pay gap reporting, which is compulsory for UK companies. We're also increasingly seeing ethnicity pay gap reporting as well, which is a really important topic.

Matthew: It would be great if you could explain what Scope 1-3 emissions are, and some of the challenges around measuring Scope 3 emissions in particular, which is where insurers have the biggest impact.

Katie: Scope 1, 2 and 3 is a way of categorising the different kinds of carbon emissions that a company creates, both in its own operations and across its wider value chain. Scope 1 covers the carbon emissions that a company makes directly, so emissions made when running its boilers or running its vehicles, for example. Scope 2 are the indirect emissions. This includes the electricity or energy that companies are buying for their heating and cooling systems - the energy that's being produced on their behalf. Scope 3 is the category for all of the other emissions associated with the company's value chain. So whether that's from buying products from its suppliers, the carbon emissions from when it uses those products, but also the emissions related to when customers buy their products. Scope 3 is therefore almost always the largest contributor of carbon emissions for any one company. It is often considered as the sum of all of the Scope 1 and 2 emissions of all of the other companies in a single company's value chain. It's really complex. So the most important thing is that for insurers, it relates to the emissions associated with its underwriting portfolio.

Matthew: What's your view on where the world is in terms of being able to help companies measure their Scope 1 and 2 emissions? Are the companies offering this reasonably credible and reliable?

Katie: Yes, I think so. There's a large number of carbon management companies, carbon consultancies and carbon accountants, where companies can consult with them to understand and measure what their Scope 1 and 2 emissions are. It's pretty well understood at this point.

Matthew: There's emissions data out there that can be licensed, but from your experience, does it still need to have some consulting or advisory work around it to make it useful?

Katie: Your own carbon emissions are so unique to your own operation, so it very much needs to be something that you do yourself and with the support of an expert.

Matthew: So back to Scope 3 emissions. What are people starting to do to help understand what their exposure is from the clients that they are underwriting?

Katie: Scope 3 emissions for insurance companies is very challenging. One of the NZIA's key goals is to create an industry consistent methodology for allocating Scope 3 emissions. One of the reasons for that is because the challenges associated with Scope 3 include double counting, because insurance companies are both underwriters and investors. It's important to make sure that you're aware of any kind of carbon double counting across those portfolios. Also, we might sell 15 different insurance products to a single client, and that's if they're a small company. It could actually be 30 different kinds of products for large, complex companies. So you also need to make sure that you don't have double counting within that. We need to make sure that we've got a consistent methodology across the industry. It's incredibly important in making sure that you don't miss carbon allocation, and so that we know how much is being allocated to a property, casualty or security risk policy. These are really complex matters.

Matthew: Do you expect to see the emergence of some standardised reporting frameworks for measuring emissions?

Katie: The NZIA is a group of heavyweight insurance companies - predominantly very large European insurers, but of course Lloyd's joined in October last year just before COP26. As I said, they're working on an industry standard methodology, because we need that to be consistent across every insurance company. We should hopefully see that methodology from them in the second half of this year. Of course, it requires everybody to adopt it. The NZIA is convened by the UN, and they've got some very good experience with large working groups. They've done this across banking, investment and asset management. I'm really encouraged by what I've seen already.

Matthew: You've mentioned that it's a European-led consortium, but a lot of this is of global relevance. Does the NZIA have a global mandate?

Katie: It absolutely has a global mandate to it. Hopefully the methodology will be adopted by companies across the world. I think we're seeing the European carriers leading in this space due to increased regulation on disclosures in particular. There is more pressure on European and UK companies to be publishing Scope 3 emissions data.

Matthew: That regulation point is really important. I have a great belief that innovation struggles in a vacuum and like it or not, regulation is what often drives people to make changes and bring in new analytics. When the NZIA is doing its work, how does it collaborate with the commercial organisations out there?

Katie: The NZIA is working with a number of commercial partners that could provide some of the framework solutions to these methodologies. I don't think anybody should be put off if they've got an idea or a way of harnessing data in a different way. I don't think anybody sat within the NZIA is saying that they've got the right answer at the moment. Even when the methodology is published later this year, there's always going to be improvements and developments that could be made in the future. So if somebody has got an idea or is working on something, I think there's opportunities to get involved.

Matthew: If somebody is looking to help insurers, or looking to go and explore areas to develop more insights or metrics, what would you point them towards?

Katie: One of the biggest hurdles that the insurance industry is about to face from a data and analytics perspective is the fact that we're about to be the receivers of huge amounts of unstructured data. When we start asking our clients and companies about their own ESG strategies and their net-zero transition pathways, we're going to be receiving that information in quite an unstructured way. For us to be able to do the analytics off the back of that, we need to capture that information in a relevant way. For me, I think that this is a big gap that we're going to face as an industry. Of course, something consistent across the industry would always be beneficial, but I think there's definitely opportunities for third-parties to start contributing to how insurance companies can deal with that challenge.

Matthew: Is there anything that you'd recommend people think about in regards to what Lloyd's is doing, either through the Lab or the Product Innovation Facility?

Katie: The Product Innovation Facility is now rebranded as the Lloyd's Product Launchpad. For the Lloyd's Lab cohort eight, one of the topics is decarbonisation and climate change. There's a huge amount of work which needs to be done around the validation of net-zero transition pathways or carbon reduction pathways, and also around the way that we would trigger a reassessment of what a carbon reduction plan looks like. Insurers are plagued with legacy systems and very complex operating systems, which means that it's very challenging for us to keep up with regulatory requirements, let alone how we start to capture all of this information and start using it for a good purpose.

Matthew: One of the benefits of Lloyd’s is its syndicated nature which allows for collaboration in areas that are not directly competitive. Is there a group of you now that gets together to talk about some of the ways to develop this in your own organisations?

Katie: Yes, there are lots of forums which are popping up across the market to enable that. We have the very high level NZIA, Lloyd's has its Sustainable Markets Initiative, the Product Launchpad is focusing on decarbonisation and climate, and then there are also other industry bodies which bring together working groups and forums to discuss good practice, regulation and governance. I mentioned earlier that we have the LMA and IUA forums, and there'll be industry bodies all over the world that pull together insurance professionals to talk on this topic.

Matthew: So Katie, we've covered an awful lot today and we didn't have to spend days doing it. If there is one thing you'd like people to remember from this podcast, what would it be?

Katie: Insurance companies don't have all the answers at this stage. What's really interesting about this stage of the journey is that insurance companies are only just starting to learn about what it is that they want to achieve from both the purpose perspective and what's required of them from a regulatory perspective on the topic of ESG. Anybody who is trying to solve some of the problems that insurers are starting to face in this space need to go to the table in a really informed way from an ESG perspective, but with a really open mind too. They need to ask the right questions to understand what insurers are looking to achieve. It's going to be different for every insurance company.

Matthew: Finally, for anybody that wants to learn a bit more about what we've talked about here, what would you point them towards?

Katie: The Lloyd's Lab and engaging with people at the Launchpad is a fantastic place to start and get involved. Podcasts like this are also fantastic. There's a huge number of online resources to start informing yourself about ESG in a more practical way. I'm also very happy to connect with people personally on LinkedIn. I post a small amount at the moment, but I’m very happy to engage with anyone who wants to take this conversation forward.

Matthew: That’s really helpful. Katie, thank you very much for your time

Katie: Thank you so much for having me, Matthew. It's been great.