SUSTAINABLE INVESTING IN PENSIONS

TOP TIPS FOR SPONSORS OF PENSION SCHEMES

TCFD REPORTING EXAMPLE
STOREBRAND

Insights for finance teams
This TCFD reporting example focuses on how Storebrand has reported, in accordance with the recommended disclosures on governance around climate-related risks and opportunities, the impacts of these risks and the climate-related scenarios considered.

Storebrand is a financial group, headquartered in Oslo, Norway. It offers pension, savings, insurance and banking products to individuals, businesses and public enterprises. Storebrand is Norway's largest private asset manager with more than NOK 1,000 billion invested in more than 4,500 companies worldwide.

In 2019, the organization committed to the TCFD recommendations, with the aim of strengthening its climate risk analysis and disclosure. Using the TCFD framework, Storebrand integrated its climate-related disclosures throughout its 2020 Annual Report. The inclusion of a TCFD Index enables user navigation of all climate-related disclosures. In addition, the chapter covering climate risks and opportunities was moved to the Director's report in the 2020 Annual Report, to clarify that management of climate risks and opportunities is part of the board's responsibility.

Storebrand's CFO, Lars Løddesøl, sees a clear value in consistent climate risk reporting through a common, widely accepted framework for climate risk disclosures:

“When integrating the recommendations from the TCFD you need to ask yourself how your company will create value and make money in a decarbonized world. In this sense, the TCFD recommendations become a strategically important tool for creating the necessary change in the individual company and, if used properly, it can be a powerful tool for engaging top management and the board in strategic decisions for the company. As a result of including climate risk in our risk review with the board, we have had some really interesting strategic discussions regarding climate change and related risks and opportunities.

From an investor's point of view, it is crucial to have transparent and good reporting on climate issues. We need this to make assessments of future earnings and risks in the individual company. For the companies that fail to adjust, there is great financial risk involved - both for the company itself and for us as investors. The demand for better data is coming from investors all around the world - and if everyone reports using the same standards, such as integrating the recommendations from the TCFD, this work will be easier and more accessible to everyone.

If you haven’t started yet, I would strongly urge you to do so. Through our collaborative work in the Nordic CEOs for a Sustainable Future network, we wrote a white paper called “Climate Risk Management, a guide to getting started” this year.

The guide is based on the members experiences on how to get started with implementing the TCFD recommendations. I hope this white paper and TCFD reporting example will be helpful in getting started with this work.”

1. Storebrand ASA Annual Report 2020, p.10
2. Nordic CEOs for a Sustainable Future, Climate Risk Management, a guide to getting started
This document sets out extracts of the relevant disclosures from Storebrand’s 2020 Annual Report and A4S’s analysis of these disclosures against the TCFD guidance. It also highlights the role of finance, and the value that finance teams can bring to the process. Additional resources can be found by clicking the links below.

**Storebrand’s 2020 Annual Report**
The TCFD Index on page 199-200 references all climate-related financial disclosures

**TCFD recommendations**

**TCFD technical supplement on scenario analysis**

**A4S TCFD top tips and practical examples**
OVERVIEW OF STOREBRAND’S TCFD COMMITMENT

Storebrand has prominently stated its adoption of the TCFD recommendations in the ‘Sustainability as a core business’ section of the Annual Report. This demonstrates to investors the importance placed on implementing the recommendations. Storebrand also highlights that having sustainability-related targets and goals, and being able to communicate and report on them, are key to the success of the company.

The implications of adopting the TCFD recommendations have been explained as one of the strategies for climate action in the ‘Our work on sustainable investments’ section of the Annual Report. The chapter explains how Storebrand engages with its investee companies to set targets in line with the Paris Agreement, and report on them in line with the TCFD recommendations. This demonstrates Storebrand’s commitment and action towards the Paris Agreement.

Focusing on the highest emitters is an increasingly important focal point of climate strategy, as is the importance of engaging with these companies to ensure their carbon emissions are in line with the Paris Agreement. At Storebrand, particular focus will be placed on active ownership and engagement with the 20 portfolio companies responsible for the most significant emissions.

This will mainly be done in cooperation with other investors by partaking in initiatives such as Climate Action 100+, which engages with companies to improve climate change governance, cut emissions and strengthen climate-related financial disclosure. In addition, Storebrand began disclosing its exposure to high-emitting sectors, based on the Net Zero Asset Owner Alliance’s list of high-emission sectors, in the 2020 Annual Report (page 70).

Communication and stakeholder dialogue

We are open about our sustainability efforts and report in accordance with several leading reporting standards, including the Global Reporting Initiative (GRI), Task Force on Climate-Related Financial Disclosures (TCFD) and Carbon Disclosure Project (CDP), in line with the expectations of a number of key stakeholders. Strategic ambitions, specific goals, reporting and communication on sustainability are important success criteria in our work. In addition, we engage in international sustainability initiatives such as The Net Zero Asset Owner Alliance and Climate Action 100+ to help our customers have a future to look forward to.

We engage with companies in the world that emit the most greenhouse gases, to reduce emissions, strengthen climate related financial reporting and improve climate management. In 2020, we worked to ensure that the companies we are invested in will set climate targets in line with the Paris Agreement and report on climate risks in accordance with the TCFD recommendations.
Reporting examples of how climate considerations are incorporated into strategic decision making demonstrates how climate-related risk management is embedded in the business. Case studies and practical examples are clear and tangible ways that companies can use to convey how climate change mitigation and adaptation is integrated into their core mission.

There is a dedicated section for TCFD-aligned disclosures in the Annual Report. This demonstrates the importance of the topic to the organization. It provides clear information to analysts and investors on how Storebrand is addressing climate change under the four pillars of the TCFD.

The ‘TCFD index’ maps the 11 TCFD recommendations to Storebrand’s climate-related disclosures, with reference to specific page numbers where the information is disclosed. This is a useful tool for identifying and navigating all the climate-related disclosures made throughout the report. It allows users to find specific disclosures that may be of interest to them.

As Storebrand works towards full implementation of the recommendations, it may be useful to include an indication of progress towards achieving full disclosure under each of the four pillars, and any work being undertaken to address gaps.

### TCFD index

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GOVERNANCE

Climate considerations are integrated within the sustainability strategy and governance structure at Storebrand. Members of the executive management group are responsible for achieving the strategic goals related to sustainability within their respective business areas. This allows users to understand that the highest level of management is responsible for achieving climate-related strategic goals.

The executive management group reviews business unit goals and targets three times a year and the Board of Directors also reviews them semi-annually. This shows that the goals and any related issues are regularly monitored and reviewed by top management and the board.

Sustainability in Storebrand
Sustainability is integrated in our business strategy and implemented across the entire business, including investments, products and product development, procurement, employment policies and business management. Our main objective is to leverage sustainability as a competitive advantage. Members of the executive management group are responsible for achieving our main strategic goals on sustainability within their respective business areas. Business unit goals and targets are reviewed three times a year by the executive management group and semi-annually by the Board of Directors. At an operational level, our work on sustainability is divided into three areas: Keeping our house in order, products and services, and communication and stakeholder engagement.

CFOs, Pension Fund Chairs and Accounting Body CEOs have signed the A4S TCFD Statements of Support to signal their commitment to support the TCFD recommendations and work with their peers in a united effort to improve disclosure across sectors and regions. To sign up, email info@a4s.org
RISK MANAGEMENT

Storebrand identifies climate risk as a main business risk and has disclosed its governance of climate-related risks and opportunities under the ‘Risk’ section of the Directors’ report. It highlights that climate risk is one of several main risks that Storebrand considers. This demonstrates to investors that climate issues are a prominent feature of the organization’s risk management framework.

The Board of Directors and the directors of subsidiaries oversee the risk management process, including adopting a risk appetite and risk strategy at least once a year. Risk appetite is defined as the overall risk level and what types of risk are deemed acceptable. The guidelines from the risk appetite are incorporated into the risk strategy, which sets the targets and frameworks. This disclosure gives investors confidence that climate risk is considered regularly alongside other major risks at the highest level of governance within Storebrand.

Risk

Our risk management framework is designed to ensure that we take the appropriate risk for delivering returns to customers and owners, while protecting them, our employees and other stakeholders from adverse events and losses. The framework covers all risks Storebrand may be exposed to. The main risks are business risk, financial market risk, insurance risk, counterparty risk, operational risk, climate risk and liquidity risk.

The Board of Storebrand ASA and the directors of the subsidiaries adopt a risk appetite and risk strategy at least once a year. Risk taking shall contribute to the achievement of our strategic and commercial goals, including customers receiving a competitive return on their pension funds, and that Storebrand receives adequate payment for taking on risk. Risk appetite is defined as the overall risk level and what types of risk are deemed acceptable. The guidelines from the risk appetite are incorporated into the risk strategy, which sets the targets and frameworks. Based on these, more detailed strategies are compiled for different risk categories. Storebrand publishes an annual Solvency and Financial Condition Report (SFCR) which helps customers and other stakeholders understand the risks in the business and how these are managed.

Top tips

1. Reporting how an organization integrates the processes of identifying, assessing, and managing climate-related risks into its overall risk framework, is effective in communicating the relative importance it places on climate risks compared to other risks.

2. Describing the risk management processes to mitigate, transfer, accept and prioritise climate-related risks of the organization, helps in assessing whether the organization is doing enough to address the climate-related risks it has identified.

3. For detailed information about Storebrand’s work on climate risk, please see pages 68-71 of the 2020 Annual Report.
**Why**

Climate change and the transition to a low-carbon society can have a significant impact on our business. This may be further exacerbated by changes in the Norwegian economy, which is vulnerable to falling oil prices and lower activity in the oil and gas industry. In developing our climate strategy, we looked at how Storebrand’s activities affect climate change, how climate change and climate policy can affect our business, and how we can adapt to avoid or mitigate potential negative impacts. In addition, we identified opportunities as a result of a changing climate and the transition to a low-carbon economy, what these entail for us and how we can capitalise on them in the best possible way. This is described in the chapter ‘A driving force for sustainable investments’ on page 57.

The effects on investments and liabilities may be sudden in the form of market unrest, or they may unfold gradually through lower average return and persistently low interest rates. A disorderly transition also poses a risk, for instance if policy initiatives are too strong relative to technology development and investment opportunities. Vulnerability from a lower oil price and activity in the oil and gas-sector is a particular risk for Norway. A potential trigger is if the policy is abruptly strengthened to achieve Norway’s goals based on the Paris agreement. A potential effect is a country-specific fall in interest rate. As part of our efforts to reduce risk, in 2020 we mapped Storebrand’s exposure to the fossil sector, analyzing revenues from pension premiums, and disability coverage related to the sector and underlying industries.

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Storebrand has an integrated climate strategy. It considers:

- How the organization’s business affects climate change
- How to avoid and mitigate being negatively affected by climate change and climate policy
- The opportunities relating to a transition to a low-emissions economy.

This highlights to investors that Storebrand has included a wide breadth of climate-related factors within its strategy setting.

Storebrand has summarized key external risks including transition risk, overall policy considerations and country-specific risks. This allows investors to incorporate key risks when analyzing Storebrand’s exposures to climate change and make comparisons with peer organizations.
SCENARIO ANALYSIS

Storebrand used the Network for Greening the Financial System (NGFS) framework to assess its climate risk in different scenarios. The key dimensions that form the basis of the scenarios have been clearly highlighted, namely the strength of physical risk and whether transition is orderly or disorderly. Using and referencing an external framework and highlighting key dimensions, allows investors to make comparisons across organizations and understand the key factors included.

Storebrand discloses the time horizons used in the assessment. Although the long term (three to ten years)\(^3\) may appear short, Storebrand explains that this aligns to its structured risk assessment process which includes climate risk. As climate-related issues often manifest themselves over the medium and longer terms, it may be useful to consider assessments over a longer time frame and in line with the useful life of the organization’s assets or infrastructure.

Storebrand clearly explains the high-level assumptions made under controlled, delayed and warm world scenarios. A qualitative description (see next page) was given of the main impacts.

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3. Since climate risk has been integrated into Storebrand’s structured risk assessment framework, which only looks at the short (1-3 years) and medium-long (3-10 years) terms, it has not included the longer-term risks occurring beyond 10 years. See page 69 of the Annual Report.
**Scenario analysis**

Storebrand has used the NGFS framework and associated scenarios to assess climate risk. The scenarios used can be simplified as follows:

1) **Controlled:**
Climate policy is restructured swiftly and with force with the aim of reaching zero emissions by 2050 and limiting global warming to 1.5 degrees. The restructuring is facilitated by the fact that carbon capture becomes technically and economically viable to some extent.

2) **Delayed:**
Varying degrees of climate crisis understanding, complex decision making and limited technology developments delay a coordinated restructuring of climate policy in relation to the goals of the Paris Agreement. From about 2025, clearer signs of negative climate change are increasing acceptance of the costs of severe austerity. Overall, the restructuring will be large enough for global warming to remain below 2 degrees.

3) **Warm world:**
Greenhouse emissions continue to grow, based on continuance of already existing emission-reduction measures. Low sense of crisis, lack of coordination and short-term policy priorities mean that already adopted future restrictions are implemented to a lesser extent. By 2050, emissions are higher than present levels and global warming will be above 3 degrees.

The economic implications of the potentially catastrophic climatic changes of scenario 3 cannot be quantified in a meaningful way. Therefore, we have based our assessment on the consequences of the scenarios controlled (1.5 °C) and delayed (> 2 °C). Based on these two scenarios, we have identified potential risks and assessed them in short (1-3 years) and long term (3-10 years).

Under the ‘warm world’ scenario, Storebrand has concluded that the impacts cannot be meaningfully quantified, demonstrating the significance of the potential impact and the limited availability of information and data for this scenario. As climate scenario analysis continues to develop, data and information for more extreme scenarios is expected to become more readily available. This will allow organizations to use it more confidently within strategic and financial planning and provide quantitative information within disclosures. Storebrand’s assessment was based on two scenarios; controlled (1.5°C) and delayed (>2°C) scenarios.

The overall findings on physical and transition climate risk exposure were explained, giving a general overview of the impact across the organisation. Storebrand sets out the key climate-related risks and opportunities across three areas of their business: asset management, real estate investments and insurance. This shows investors how the different impacts manifest across various parts of the business.
ASSET MANAGEMENT

Storebrand mentions that its climate-related financial risks and opportunities to its asset management business will be more significant when the world transitions to a low-carbon economy. A useful next step for disclosure would be to provide quantitative information on potential impacts and the associated timeframes.

### Asset management

Our asset management’s largest climate-related financial risks and opportunities are believed to lie in the transition to a low-emission society. Climate policy and regulations, more rigorous emission requirements, a changed cost structure and market preferences may affect our investments. Our most important initiatives to mitigate these risks and capitalise on potential opportunities are listed below and in the chapter ‘driving force for sustainable investments’. Through Storebrand’s climate strategy for investments, and our commitments through Net Zero Asset Owner Alliance, our target is to ensure that our investment portfolio shall be climate neutral by 2050. Part of the commitment is for Storebrand to set intermediate targets for emission reductions and report on target achievement.
REAL ESTATE INVESTMENTS

Storebrand highlights the main physical and transitional risks within its real estate investment portfolio, alongside the investment held. This allows readers to understand the significance of the portfolio to the business. Mitigation measures for the risks are clearly highlighted, allowing investors to assess Storebrand’s resilience.

Storebrand highlighted recent activities related to real estate investments, including road testing and target setting by Storebrand’s property subsidiary, using the Science Based Targets initiative’s (SBTi) methodology for setting a 1.5 degree target, and a physical risk assessment undertaken by their Swedish subsidiary, in collaboration with external experts. The work with SBTi was developed into a case study for SBTi’s report outlining emissions setting methodologies for financial institutions, and will be used in their further work on transition risk in the property portfolio.

This demonstrates the investment-specific activities being undertaken to advance climate-related risk management and climate strategy.

Real estate investments

Storebrand has direct real estate investments equivalent to NOK 49 billion, which constitutes 5 per cent of assets under management. Physical risk is largely related to the effects of extreme weather on physical assets.

Transitional risks are linked to uncertainty about long-term changes. We expect the real estate sector to be subject to new requirements related to energy efficiency and climate impact. Our ability to adapt to these requirements is essential for us to manage risk and capitalise on market opportunities. In 2020, Storebrand’s property subsidiary, in collaboration with The Science Based Targets initiative (SBTi), tested their methodology for setting science-based targets in line with the 1.5 degree target of the Paris Agreement. The aim of the pilot project was to establish a target, and an associated emission pathway to 2050. The pilot project was part of a report published in connection with SBTi launching its methodology to set science-based emission targets for financial institutions. The pilot project and the associated target includes intermediate targets on the road to carbon neutrality in 2050 and is a management tool that will be used in our further work on transition risk in the property portfolio.

Risk-reducing measures that we have already implemented include property certification and rating through the Global Real Estate Sustainability Benchmark (GRESB).

Through 2020, we have been working on a project to develop a tool for climate accounting and forecasting for real estate, which is due to be completed in 2021. SPP Fastigheter, Storebrand’s Swedish subsidiary in real estate investments, conducted an assessment in 2020 of its exposure to physical climate risk, mainly increased rainfall and flooding for all its properties. The analysis indicates that a couple of properties in the portfolio are at medium flooding risk, and work is underway to assess potential adaptation measures at these properties.
INSURANCE

Storebrand discloses that the direct impact on insurance liabilities is limited as the business is largely based on reassurance with annual adjustment of agreement terms. This gives confidence to investors that exposure has been considered and assessed. Both physical risk and transition risk are discussed, showing both have been included within the assessment. A useful next step would be to provide quantitative information for the risks associated with its real estate and casualty insurance business, alongside any sector-specific scenario analysis undertaken.

Key mitigating initiatives have been disclosed which cover the climate risks identified. This shows how Storebrand is integrating climate risk into existing processes such as underwriting and developing climate-related competencies among customers.

Insurance

The direct impact of climate change on Storebrand’s insurance obligations is limited because our business is largely based on reassurance where the terms of the agreement are adjusted annually. As a responsible insurance company, we still have a responsibility to assist our customers in securing themselves and their assets against potential climate risks. The biggest climate related financial risk to our property and non-life insurance business is increased insurance settlements related to climate related damage. In the long term, rising sea levels and changes in weather patterns can also have an impact. Risks associated with changing customer behaviour, technological developments and new regulations will also affect the property and non-life insurance market.

Our main measures to reduce climate risk are the following:

- Risk assessment and pricing: Climate factors are included in risk assessment and pricing in the underwriting process.
- Exposure mapping and reinsurance: We reinsure assets in areas with high exposure to physical risk associated with climate change.
- Diversified risk through national plan: Participation in Norwegian natural perils pool is statutory and provides joint reinsurance protection linked to property insurance for real estate and housing.
- Pilot project under the auspices of UNEP FI: As one of 18 insurance companies, we have participated in a project for further development of standardised reporting for insurance providers in accordance with TCFD. We participated in the working group which analysed physical risk related to increased rainfall and flooding. The work resulted in a report launched in January 2021.
- Rewarding damage prevention: We actively communicate with our customers, encouraging damage prevention measures, such as securing property during periods prone to flooding.
THE ROLE OF FINANCE IN SCENARIO ANALYSIS

- The finance team can play an important role in the scenario selection scoping process. Financial data is an important input that is considered during materiality assessments conducted to determine the scope of scenario analysis. The finance team is the gatekeeper to accurate and robust data and can validate the integrity of the underlying inputs used in modelling.
- The outputs from scenario analysis help to understand the impacts on revenues, costs and earnings under each scenario. Finance teams can use this data to analyse the impacts on the business and develop appropriate mitigation action plans. The results and insights from the scenario analysis can be used to inform regular financial processes such as capital allocation, budgeting, forecasting and reporting.
- Finance teams should be closely involved in drafting the disclosures on climate-related risks and opportunities based on the scenario analysis process and results. This process should follow the same rigour and discipline of financial reporting.

For further guidance on TCFD climate scenario analysis, please see the A4S resource here.
METRICS AND TARGETS

Storebrand has provided details of key projects and their associated metrics and targets for 2025. These projects and related disclosures are in line with the TCFD recommendation to disclose the targets set to manage climate-related risks and opportunities.

The projects disclosed are related to resource efficiency, energy use, products and services and markets which are broad areas for consideration recommended by the TCFD.

In addition to including metrics and targets throughout the report, Storebrand has compiled all ESG-related metrics and targets as an appendix to the Annual Report.

We have established a framework with the following targets for 2025:

- **Emission targets for equity, corporate bonds, and real estate investments:** In line with the IPCC’s 1.5°C scenarios and commitments communicated through Storebrand’s climate strategy and the Net Zero Asset Owner Alliance (NZAOA), we aim to reduce the carbon footprint in the Storebrand Group’s total equities, corporate bond, and real estate investments by at least 32 per cent by 2025 with the base year in 2018.

- **Climate reduction objectives for high emission sectors:** Storebrand will set targets for emissions reductions for high emission sectors during the first half of 2021. See our equity exposure to high emission sectors below.

- **Be an active owner and driving force:** Storebrand Asset Management (SAM) leads Storebrand’s work with active ownership. In line with SAM’s strategy for active ownership, particular focus will be placed on our active ownership and engagements with the 20 companies where we own the largest emissions. This will mainly be done in cooperation with other investors in initiatives such as Climate Action 100+.

- **Reorient capital towards solution companies:** Storebrand’s target is that 15% of our total investments will be invested in what we define as solutions by 2025. It includes equity investments in solution companies, green bonds, certified green property and investments in green infrastructure.

- **Engage customers and offer solutions:** Storebrand aims to engage customers and offer products and solutions that ensure more capital in invested in solutions and less capital is invested in high-emission companies and sectors.

Top tip

Setting targets and reporting on performance in line with these targets, demonstrates commitment and transparency. Science-based targets provide a clearly defined pathway for companies to reduce greenhouse gas emissions.
OVERALL COMMENTS

Storebrand has clearly set out its actions and progress in accordance with the TCFD recommendations and has clearly identified how its reporting maps to the key pillars of the TCFD. Storebrand has clearly considered how climate-related risks and opportunities will impact upon its business and strategy, and has incorporated these considerations within the Director’s report, indicating to analysts the importance of these considerations at board level.

Storebrand has outlined how climate-related risks and opportunities will impact key areas of the business, which is an important consideration when determining strategy at divisional level and which will enable analysts to understand the extent to which climate-related risks and opportunities have been considered. As Storebrand develops its disclosures further and expands quantitative analysis, users will be able to further understand the financial impact of the risks and opportunities assessed.

The climate mitigation strategy and key metrics and targets used to measure success have been clearly outlined, and alignment to SBTi methodology provides a recognisable framework against which targets are being set. Alignment to a 1.5 degree scenario demonstrates ambition in line with the pace and scale needed to prevent the most devastating impacts of climate change, and one which is likely to be more widely adopted in a business landscape that is increasingly aware of our collective responsibility to mitigate climate change.
FURTHER RESOURCES

- A4S TCFD Top Tips for Finance Teams
- A4S TCFD Insight Series
- A4S TCFD Climate Scenario Analysis guidance
- TCFD recommendations
- TCFD technical supplement on scenario analysis
- TCFD Technical Annex – Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures
- TCFD knowledge hub
ABOUT A4S

Our vision is a future where sustainable business is business as usual.

HRH The Prince of Wales established A4S in 2004 to work with the finance and accounting community to:

- **Inspire finance leaders** to adopt sustainable and resilient business models
- **Transform financial decision making** to reflect the opportunities and risks posed by the climate crisis and other environmental and social issues
- **Scale up action** to transition to a sustainable economy

A4S has three global networks:

- **Chief Financial Officers (CFO) Leadership Network** – CFOs from leading organizations seeking to transform finance and accounting.
- **Accounting Bodies Network (ABN)** – members comprise approximately two-thirds of the world’s accountants.
- **Asset Owners Network** – Pension Fund Chairs who integrate sustainability into investment decision making.

FURTHER GUIDANCE FROM A4S

**LEAD THE WAY**

Developing a strategic response to macro sustainability trends

- Managing Future Uncertainty
- Engaging the Board and Executive Management
- Finance Culture
- Incentivizing Action*

**TRANSFORM YOUR DECISIONS**

Integrating material sustainability factors into decision making

- Strategic Planning, Budgeting and Forecasting
- Management Information
- Capex

**MEASURE WHAT MATTERS**

Developing measurement and valuation tools

- Natural and Social Capital Accounting
- Social and Human Capital Accounting
- Valuations and Climate Change

**ACCESS FINANCE**

Engaging with finance providers on the drivers of sustainable value

- Enhancing Investor Engagement
- Debt Finance
- Implementing the TCFD Recommendations
- Implementing a Sustainable Finance Framework

*coming soon

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