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## **Are We Walking the Talk?**

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# ARE WE WALKING THE TALK?

How much are big investors following climate disclosure recommendations, really? **Paul Klumpes** and **Sachal Gandotra** reveal the findings of research undertaken by the IFoA Climate and Nature Risk Reporting Working Party

**T**he Principles for Responsible Investment (PRI) network recently produced updated annual reporting obligations on how its members should align their climate reporting to the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD).

The IFoA Climate and Nature Risk Reporting Working Party analysed the degree of alignment of a sample of large asset owners and asset managers; here, we present a summary of our findings. This is the first comprehensive study to analyse these organisations' alignment with TCFD recommendations since the taskforce was disbanded in October 2023.

In the five years since its recommendations were implemented, the TCFD issued five monitoring reports on how far various types of globally large organisations were engaging with them. However, until 2021, its



To take part in the Climate and Nature Risk Reporting Working Party's survey (see *overleaf*), use the QR code



analysis of asset owners and asset managers relied on publicly available reports produced by PRI members, and a self-administered survey – the results of which were based on a response rate of less than 10%.

Large asset owners and managers have been under increasing political and public scrutiny regarding their transparency on climate risks. A joint 2021 report from the PRI, the UN Environment Programme Finance

**Last year, the degree of alignment was highest for insurance companies, followed closely by asset managers; it was lowest for pension funds**

Initiative and the Generation Foundation, *A Legal Framework for Impact*, challenged the premise that such organisations' standard fiduciary duties are simply to maximise return on investments, with a broader remit to provide risk management impact to their stakeholders, then the broader society and the planet. At last year's COP 28 summit, a group of globally large asset manager and asset-owner

organisations committed to go beyond stewardship-based TCFD reporting by monitoring their net-zero pledges via climate action and/or transition plans.

The PRI subsequently upgraded its climate reporting requirements for members so that they would provide more detailed and comprehensive public information. The requirements were initially introduced via a 2021 pilot (reports produced in August 2022) and then via a final 2023 version (reports publicly available in December 2023). They included more specific questions concerning issues such as which elements of responsible investment policies are publicly available, the roles and responsibilities of boards, and performance metrics and targets. The latter went into the specific metrics or variables used and disclosed, including methodology.

### Our aim and approach

Our analysis covered both the 2021 and 2023 PRI climate reports issued by a sample of globally large investor organisations. It set out to address three key questions:

- What is the relative degree of alignment with the TCFD recommendations by various types of globally large investor organisations members of the PRI (asset managers, insurance companies and pension funds)?
- Has this degree of alignment significantly changed over the last two years?
- Do these investors 'walk the talk'? To what extent do they implement climate risk-related strategies in practice, for example via membership of the Climate Action 100+ lobbying group, or by producing publicly available TCFD and/or climate action plans?

We took a stratified sample of the 100 largest global investor organisations that have been PRI members since 2020. It comprised an equally weighted selection of 50 pension funds and sovereign wealth funds, and 50 insurance companies and asset management organisations – selected from the latest (2022) published lists of the 500 globally largest asset managers (in terms of assets under management in \$bn), the 300 globally largest pension funds produced by The Thinking Ahead Institute, and AM Best’s list of the largest 25 insurance companies ranked by assets under management.

The analysis was based on a review of how far these organisations’ climate risk reports responded to questions in the 2021 pilot and in 2023. Two UK pension funds and one US pension fund did not report in 2023, while one Dutch pension fund’s 2021 and 2023 reports could not be found on the PRI data portal. This resulted in 99 PRI climate reports from 2021 and 97 from 2023.

As many of these asset manager organisations are also subsidiaries of insurance companies, reports produced by both the insurance companies and their subsidiaries were separately analysed, where relevant. This resulted in an overall final sample of 40 asset managers and 10 insurance companies.

**The results**

Figure 1 shows the degree of alignment with the TCFD recommendations for 2021 and 2023, split by asset managers, insurers and pension funds.

In 2023, the degree of alignment was highest for insurance companies (76%), followed closely by asset managers (73%); it was lowest for pension funds (61%). It had improved over the two-year period for all categories, with insurers and pension funds increasing their degree of alignment by 51% and 48% respectively.

Figure 2 summarises investors’ rates of participation in other climate initiatives, including whether they were a member of Climate Action 100+, published a TCFD report or had a climate plan.

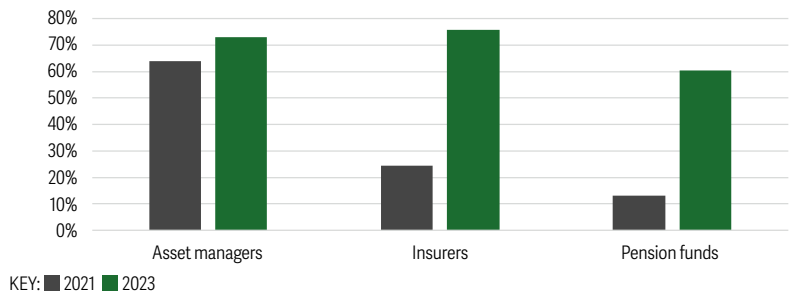
Most of the sample investor organisations were also members of Climate Action 100+. A majority of asset managers and 90% of insurers issued publicly available TCFD reports, but fewer than half of pension funds did, and fewer than half of asset managers and insurers produced climate action plans.

These results suggest that a significant portion of PRI members need to take further action to implement their stated commitment to net-zero policies through transition planning.

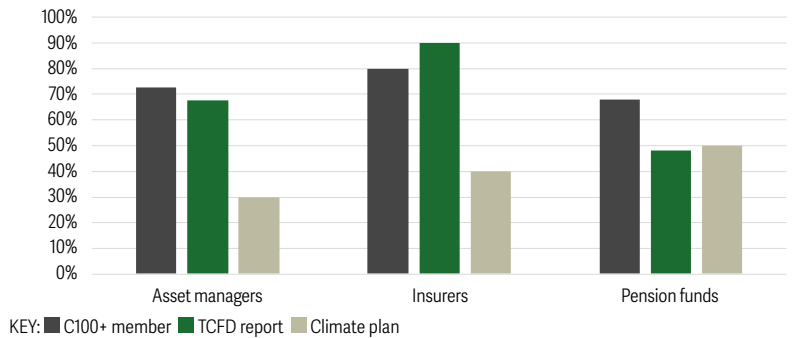
**What next?**

Our preliminary findings provide mixed evidence concerning alignment with TCFD recommendations by a sample of the PRI’s largest members. The findings are based on a comprehensive analysis of climate reports issued by these organisations in 2021 and 2023. However,

**FIGURE 1:** Degree of alignment with TCFD recommendations, 2021 and 2023



**FIGURE 2:** Extent of participation in other climate initiatives



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the findings have limitations in that there is some subjectivity associated with the researcher-defined ‘degree of alignment’.

Furthermore, the findings need to be updated to reflect the differences between the TCFD recommendations and the new IFRS S2 Climate-related Disclosures standard issued by the International Sustainability Standards Board, which came into effect at the beginning of 2024 (read the article about this from *The Actuary’s* March issue at [bit.ly/Reporting\\_climate\\_duty](https://bit.ly/Reporting_climate_duty)).

The IFoA Climate and Nature Risk Reporting Working Party also plans to undertake a survey of best-practice internal capabilities in TCFD-aligned climate risk reporting, targeted at chief risk officers and/or heads of risk at insurance companies’ pension schemes in the UK. It aims to collate industry-wide practices, and we plan to publish our findings in a future article. The survey includes questions on governance, risk appetite and risk reporting – take part by using the QR code on page 39.

Our next phase is to carry out a similar research exercise to assess the sample organisations’ degree of alignment with the Taskforce on Nature-related Financial Disclosure (TNFD) recommendations, once these come into force.

We also plan to investigate how these organisations, as powerful institutional investors, influence the climate-related and nature-related risk reporting practices of a sample of globally large corporations in which they invest. This will complement research undertaken by the IFoA Biodiversity and Natural Capital Working Party on TNFD compliance by the Fortune Global list of largest firms.

The views of the authors are not necessarily those of the other members of the working party