



SUMMARY REPORT:
**CLIMATE SCENARIO
NARRATIVES FOR
THE FINANCIAL
SERVICES SECTOR**

A woman with long brown hair, wearing a blue jacket and a grey fringed scarf, is looking down at a newspaper she is holding. The background is a blurred cafe or restaurant interior with warm lighting and other people. The text is overlaid on the left side of the image.

**GROW THE FINANCIAL
CONFIDENCE AND
WELLBEING OF
NEW ZEALANDERS**

FSC.

INTRODUCTION



Rob Flannagan
Independent Chair



Richard Klipin
CEO, FSC

To care for our planet and our people, and to meet climate change goals, we must urgently address the climate agenda. The nation cannot do so without the full involvement of the financial sector. Every part of the economy has a role to play.

New Zealand's legislation and regulatory regimes are evolving to make sure that all industries are doing the right thing for the planet and our people. Over the last two years we've seen the passing of the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021, the External Reporting Board developing standards and guidelines, Government emissions plans and significant international activity.

To help New Zealand's fund management, life insurance and health insurance sectors through this period of new regulation and reporting obligations, we engaged EY to assist with facilitating conversations and producing a report that can be used by organisations in their climate-related analysis and disclosure.

The report is designed to support the sector in the reporting of climate-related risks and opportunities under the framework developed by the External Reporting Board (XRB). It is the culmination of nine month's work by FSC members and others and reflects the passion of the industry to do the right thing and accelerate action to address the climate crisis.

We commend these common set of scenario narratives and approach, co-created with the aim to improve comparability and consistency of climate-related risk disclosures in the financial sector.

* Helen Clarkson, CEO of the Climate Group, which represents 260 regional governments and 500 multinational businesses, covering 1.75 billion people and 50% of the global economy.

“Every decision,
every investment,
every target,
needs to have the
climate at its core.”*



RELEASE NOTICE

Ernst & Young (“EY”) was engaged on the instructions of the Financial Services Council to support it in producing Climate Scenario Narratives and Guidance for the Financial Sector project, in accordance with the engagement agreement dated 4 August 2022.

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PURPOSE OF THIS REPORT

The full report is designed to support fund managers, life insurers and health insurers for their reporting of climate-related risks and opportunities under the framework developed by the External Reporting Board (XRB). The XRB has developed the 'Aotearoa New Zealand Climate Standards' (NZ CSs) in response to Parliament's decision in 2021 to pass the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021. Many

fund managers, life insurers and health insurers are captured by the reporting mandate and will need to start publishing their disclosures over the next two years.

The full report is aimed at supporting fund managers, life insurers and health insurers to better understand and assess climate-related risks and opportunities as they work to meet disclosure expectations.



FULL REPORT CONTENTS

SECTION	CONTENT	USE
Background and how to use this report	<p>Regulatory context that has led to the creation of the report.</p> <p>Definition of scenario analysis and its importance.</p> <p>Guidance on the integration of scenario analysis into the wider climate-related disclosure requirements.</p>	<p>Provides context to internal stakeholders on the importance of climate-risk assessment and disclosures, and scenario analysis.</p> <p>Help Users to incorporate scenario analysis activities into wider climate-related disclosure requirements.</p>
Methodology	<p>Overview of the approach taken to develop the scenario narratives, portfolio risk approach and high-level risks and opportunities.</p>	<p>Helps Users describe the collaborative and iterative approach used in the creation of the scenario narratives, portfolio risk approach, and high-level risks and opportunities.</p> <p>If the scenario narratives in the report are used, this section can inform the methodology sections of disclosures.</p>
Resources	<p>Additional resources outside this report developed through the engagement process.</p>	<p>A key source of information for Users to perform their internal risk assessment and to support with record keeping requirements.</p>
Climate scenario narratives	<p>Three detailed climate scenario narratives that follow regulatory requirements and consider the scenario analysis guidance set out in the XRB scenario analysis guidance. For each scenario narrative, this section provides:</p> <ul style="list-style-type: none"> • Key quantitative assumptions that underpin the scenario narrative • Detailed narrative focusing on climate, socio-economic, policy and technology outcomes <p>Time horizons to be used alongside the three scenario narratives to assess the variation in physical and transition risks.</p>	<p>This section could be used as a source of information for Users to perform their internal scenario analysis, as detailed below:</p> <ul style="list-style-type: none"> • Decide on key global and/or domestic scenarios and parameters to be used for each scenario narrative e.g., carbon price
Risks and opportunities	<p>An approach to assess portfolio level climate-risk:</p> <ul style="list-style-type: none"> • Key climate-related portfolio risks for insurers and fund managers • Key climate-related product/operational risks for insurers <p>Key high-level climate-related opportunities for insurers and fund managers.</p>	<p>This section could be used as a key source of information for Users to perform their internal risk assessment, as detailed below:</p> <ul style="list-style-type: none"> • Select the time horizons to be used to assess the entities climate-related risks and opportunities • Consider the key risks and high-level opportunities identified in their climate-related risks and opportunities assessment • Determine their portfolio level risk

OUTLINE OF THE THREE SCENARIO NARRATIVES

Organisations involved in creating the report chose three scenario narratives and three time horizons. This meets the External Reporting Board's (XRB) Aotearoa New Zealand Climate Standards' requirements and makes it simple to compare climate-related scenario analysis and risk disclosures across the fund management, life insurance and health insurance sectors.

CATEGORY ¹	SCENARIO DIMENSIONS		
	ORDERLY 1.5°C	TOO LITTLE TOO LATE >2°C	HOTHOUSE >3°C
Global climate & socio-economic parameters	IPCC SSP1-1.9	IPCC SSP2-4.5	IPCC SSP5-8.5
Global energy and emission pathway parameters	NGFS Net Zero 2050 IEA Net Zero Emissions by 2050	NGFS NDCs IEA APS	NGFS Current Policies IEA STEPS
New Zealand-specific climate parameters	NIWA RCP2.6	NIWA RCP4.5	NIWA RCP8.5
New Zealand-specific transition pathway parameters	CCC 'Tailwinds'	CCC 'Headwinds'	CCC 'Current Policy Reference'
Rationale for selection	<p>Most commonly used scenario by fund managers and insurers internationally.</p> <p>Aligned with scenarios already selected by FSC/BIG members or their parent entities.</p> <p>Orderly was also selected for other NZ sectoral level climate scenario narratives.</p> <p>Meets XRBs requirement for a 1.5°C aligned scenario.</p>	<p>Although not a commonly used scenario by fund managers and insurers internationally, more realistic New Zealand scenario than the alternative, Disorderly scenario, with greater exposure to medium-high physical risk and transition risk.</p> <p>Third scenario selected for other NZ sectoral level climate scenario narratives and financial sector regulators.</p>	<p>Commonly used scenario by fund managers and insurers internationally.</p> <p>Aligned with scenarios already selected by FSC/BIG members or their parent entities.</p> <p>Hothouse was also selected for other NZ sectoral level climate scenario narratives.</p> <p>Meets XRBs requirement for a >3°C aligned scenario.</p>

Detailed information on these data sets can be found in Appendices A and B.

¹ The categories selected are those specified by the XRB in their report **Scenario Analysis: Getting Started at the Sector Level**.

Table 1: Scenario dimensions and relevant international and domestic data sets selected by the organisations involved in creating the report in alignment with the XRB's guidance on sector-level scenario analysis.



	SHORT TERM	MEDIUM TERM	LONG TERM
TIME HORIZON	1-3 YEARS	5-10 YEARS	>30 YEARS
YEAR RELATIVE TO 2022	2025	2030	2050+
Rationale for selection	<p>Aligned with current regulator stress-testing time horizons and the timeframes over which the health insurance sector offers its products to customers.</p>	<p>Aligned with interim emissions reductions targets.</p> <p>Aligned with medium-term investment horizon such as those for individuals saving for marriage or KiwiSaver withdrawal for a first home.</p> <p>Will capture intermediary exposure to carbon price.</p>	<p>Aligned with international emissions reductions targets.</p> <p>Aligned with long-term investment horizons such as individuals saving for retirement or KiwiSaver withdrawal.</p> <p>Individual entities can extend time horizons if desired (likely physical impacts will increase in quantitative modelling over longer timeframes).</p>

Table 2: Time horizons chosen by the organisations involved in creating the report

CLIMATE-RELATED RISKS AND OPPORTUNITIES

Fund managers, life insurers and health insurers are exposed to climate-related risks and opportunities in two main ways - through their products and operations and through the portfolios of assets that they invest in.

An approach to enable organisations to identify climate-related risks at the portfolio level has been developed through the report and can be applied by fund managers, life insurers and health insurers. Key product and operational risks have been identified for insurers. Additionally, high-level opportunities have been identified for both insurers and fund-managers.

CLIMATE RISK	
PORTFOLIO LEVEL	PRODUCT / OPERATIONAL LEVEL
How climate-change impacts underlying investments and thus the investment portfolio and scheme	How climate-change impacts product characteristics, demand and profitability and the entity's operations

Figure 1: Insurer and fund manager climate-risk components



USE OF THE REPORT

The scenarios described in the full report provide a consistent framework for fund managers, life insurers and health insurers to use in their assessment of the potential business implications of climate-related risks and opportunities.

Proposed next steps at the entity level are set out in Figure 2. The chevrons in orange represent the work that has been done collectively at the sector-level and the chevrons in blue represent the work that will need to be done by each individual organisation.

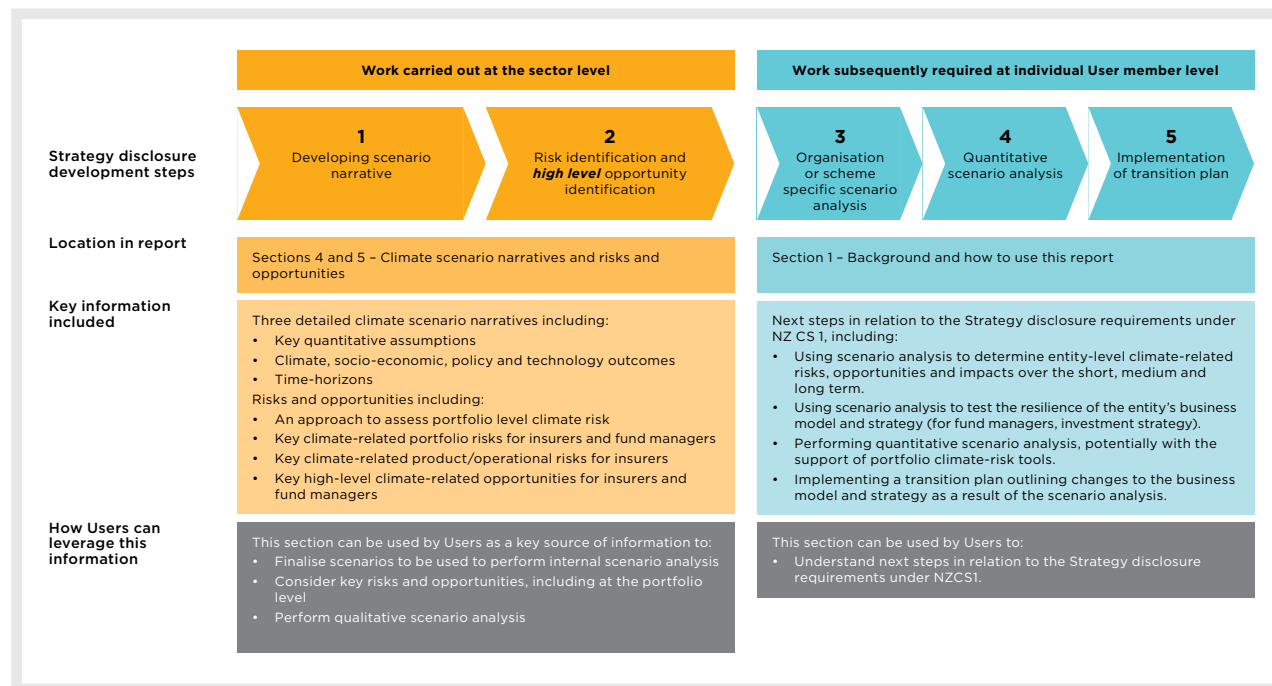


Figure 2: Key strategy disclosure development steps, and scope of sector collaboration for this report

Financial Services Council NZ

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