Insurance Council of Australia

25 May 2023

Submitted via comment letter: https://framework.tnfd.global/provide-feedback/public-consultation/

Dear Taskforce on Nature-related Financial Disclosures (TNFD),

Taskforce on Nature-related Financial Disclosures (TNFD) Version v0.4 Beta Release: Formal public consultation process

The Insurance Council of Australia (**Insurance Council**) thanks the Taskforce on Nature-related Financial Disclosures (TNFD) for the opportunity to provide feedback in response to the TNFD Version v0.4 Beta Release. We appreciate the collaborative approach the Taskforce has taken to welcome submissions from interested stakeholders.

The Insurance Council is the representative body of the general insurance industry in Australia and represents approximately 89% of private sector general insurers. As a foundational component of the Australian economy, the general insurance industry employs approximately 60,000 people, generates gross written premiums of $60.2 billion per annum and on average pays out $150.6 million in claims each working day, totalling $37.5 billion per year.

The ICA and its members are supportive of the TNFD and recognise the need for a voluntary risk management and disclosure framework for organisations to report and act on evolving nature-related risks and opportunities.

The ICA welcomes the alignment of the TNFD with existing and future climate and sustainability frameworks to support reinsurance and global capital flows (for example, alignment with the Taskforce on Climate-related Financial Disclosures (TCFD) and International Sustainability Standards Board (ISSB) will be critical). Clear and comparable disclosure of sustainability and climate related information is one of the foundational building blocks of a well-functioning global financial system. This includes Australia’s proposed mandatory climate disclosure framework.

However, the cost and capability burden, alongside existing data gaps may require a phased approach for disclosures over time. This includes initially encouraging sectors with direct operations that have a material impact and dependency on nature to disclose, and phasing in those sectors whose activities either do not have a material impact or direct dependency on nature or have nature-related activities that are outside their operational direct control (such as financial institutions).

Further detail is provided below.

Overall framework

It is essential that the TNFD’s nature related financial disclosure aligns and harmonises with existing and future climate and sustainability disclosure frameworks. If the TNFD reporting framework aligns with other climate and sustainability disclosure frameworks, this will streamline transparency of the potential financial impacts to an organisation’s nature-related risks and opportunities, as well as accelerating the adoption of consistent, comprehensive nature-related disclosures.

Alignment with existing standards will not only streamline nature-related disclosure for preparers (including for entities with operations in multiple jurisdictions), but it will also improve comparability of results for consumers and investors. This will support the adoption of the TNFD framework as a global framework for nature-based disclosures that enables a wholistic approach to reporting across multiple jurisdictions, rather than segmented approaches across individual jurisdictions.

If the TNFD reporting framework is to be formally integrated with other standards in the future to provide a single disclosure framework, a timeline for integration should be publicly provided to allow organisations adequate time to streamline their management and disclosure of nature-based and climate-based risks and opportunities.

Draft Disclosure Recommendations

We recommend that a phased approach to the introduction of reporting requirements be used to allow time for entities to develop measurement methodologies and data collection processes. For example, initially focusing on sectors with direct operations that have a material impact and dependency on nature – such as mining and metals, agriculture and food, and energy – rather than those sectors whose activities either do not have a material impact or direct dependency on nature or have nature-related activities that are outside their operational direct control (such as financial institutions).

Whilst the ICA and its members are supportive of the nature-related disclosures, there are particular complexities regarding disclosures for financial institutions and the degree of information that can be disclosed. Material nature-related risks will be primarily through an insurer's portfolios rather than its direct operations so financial institutions will have a reliance on disclosures from third parties. In addition, there are also methodology and data gaps which prevent the accurate measurement and reporting of nature-related risks across underwriting portfolios, supply chains and investment asset classes.

There will also be significant financial costs of implementation for some organisations in terms of the collection and disclosure of robust, consistent, and reliable industry-specific information. Requiring the disclosure of value chain nature-related risks in the near-term could impose significant costs, particularly on smaller entities that do not have the requisite resources or capabilities. A phased approach will allow time for financial institutions to develop measurement methodologies, data collection processes and adequate resourcing, as well as to ensure alignment with a range of other frameworks at the international level, such as the TCFD and ISSB.

In addition, there may be limitations on the detail of information disclosed due to confidentiality and/or competitive reasons. Users will be limited to disclosing information that respects their obligations under local competition law. We also note that financial position, financial performance and cash flows associated with nature-related risks over the short, medium and long term are inherently uncertain whilst data and capability gaps persist.

Unlike certain other jurisdictions, reporting entities in Australia (as well as directors and officers) are exposed to the risks relating to forward-looking statements because there is no safe harbour exemption that allows for the exclusion of liability in specific contained circumstances. For example, in Australia, potential liability exists for misleading and deceptive disclosure under s1041H of the Corporations Act 2001 and s18 of the Australian Consumer Law. Applying safe harbour provisions to forward-looking statements can also assist in mitigating risks associated with making forward-looking statements. The ICA and its members stand ready to collaborate with relevant Australian agencies such as the Australian Accounting Standards Board (AASB), Australian Treasury, relevant government departments, regulators and key peak bodies to determine the most appropriate mechanisms that assist in further mitigating the uncertainty in forward looking statements, driven by challenges such as the lack of agreed nature-related methodologies and data.

Standardised wording for a disclaimer should also be provided to reflect the uncertainty in forward looking statements disclosed to avoid legal risks associated with material misstatement. Disclosures should aim to strike a balance between mitigating material risk for preparers, whilst enabling an appropriate amount of information to be provided to investors to inform their decision making.

The size and capacity of an organisation to resource disclosure may mean that initially the framework will be adopted by large listed for-profit Australian entities (including global companies with large Australian subsidiaries), whereas medium and smaller entities adopt the framework overtime as they develop measurement methodologies and data collection processes. The Australian Sustainable Finance Institute (ASFI) Roadmap recommended the ASX 300 and financial institutions with more than $100 million in consolidated annual revenue report in line with the TCFD recommendations – a similar benchmark could be applied to the TNFD recommendations.

Whilst a phased approach may be required for nature-related disclosure, early adoption of the framework is nevertheless encouraged, noting urgent action is required to transition to a sustainable economy and limit the impacts of nature-related risks. For example, a number of ICA members are already putting in place the resourcing and capability to measure and disclose under existing and future climate and sustainability frameworks (for example, the TCFD and the ISSB). As a result, they may be able to disclose nature-related risks sooner than smaller insurers who do not have the resources or capability. Re/insurers with Australian operations, but headquarters in a different jurisdiction may find that at the group level reporting and disclosure is also further progressed because of the differing regulatory environments, potentially enabling the Australian operations to provide reporting sooner.

LEAP Approach

The ICA and its members support the location specific assessment of nature impacts, dependencies, risks and opportunities, and consideration of the entire value chain and life cycle of products or services.

Metrics and Targets

The ICA and its members support the TNFD ensuring that nature-related data and metrics are science-based and leverage existing approaches where possible. Notably, alignment of the TNFD with the Science-Based Targets for Nature (SBTN) provides measurable, actionable, and time-bound objectives based on the best available science that allow actors to achieve credible nature-positive and resilient outcomes and avoid the risk of greenwashing.[54]

The ability of insurers to apply the recommended global disclosure metrics - to understand, measure and address their nature risks and opportunities - will initially be limited by data availability, quality and broadly agreed methodologies. Rather than applying definitions for the financial institution metrics, flexibility should be provided until consensus on methodologies develop. As data sources and methodologies mature, the insurance industry will be better equipped to apply the recommended global disclosure metrics to effectively report on nature-based risks and opportunities.

New technical knowledge and human resources are required across sectors to implement nature-related disclosure, particularly in small to medium businesses and not-for-profit. In-house capability is limited for quantitative analysis of nature-related risks. Capacity sits in universities and consultancies and need to be transferred. This requires significant investment.

Ongoing industry engagement and pilot testing with key industries (for e.g., high risk sectors, manufacturing, financial services etc) will assist in testing and addressing data gaps. These gaps should be addressed at the industry-level and allow entities to continue to evolve their measurements and data improvements. Any gaps should be transparently addressed in disclosure reports, with a clear roadmap on how to address them.

Approach to specific guidance

The TNFD has an important role to play in educating organisations on disclosing in accordance with the proposed framework. We note that the Task force on Climate-related Financial Disclosures (TCFD) provided a similar role upon the release of its recommendations and maintains a resources database named the TCFD Knowledge Hub.

In addition to the Taskforce's disclosure guidance for financial institutions, further guidance could also be provided on the ability of insurers to share information on best practice management of nature-related risks, to provide a holistic approach to managing nature-related risks. Insurers have wide risk management expertise and the unique ability to build capacity and partner with customers, local governments, and policymakers to encourage better adaptation planning and management of nature-related risks, as well as highlight the sector's support for measures to protect and restore nature. There are many examples of effective cross-industry collaboration that the insurance sector can draw upon to guide its approach to collaboration and engagement, including the recently published ICA Net Zero Roadmap, Australian Sustainable Finance Institute's Taxonomy Project and initiatives of the United Nations Environment Program Finance Initiative (UNEP-FI).

The ICA and its members welcome the Taskforce's guidance on engagement with stakeholders who are affected by a company's activities and associated nature-related risks, including indigenous peoples. The role of First Nations people in effective management of nature risk and opportunity is an important aspect to include in the TNFD, noting that the Australian Government has committed to giving First Nations peoples a stronger voice in environmental protection. Further guidance could be provided to encourage collaboration between relevant stakeholders to build capacity to protect and restore nature. For example, as part of nature-based reporting, reporting entities will need to engage with companies to promote positive solutions (including proxy voting policies), create exclusion policies or require a transition plan for companies that contribute to nature loss (e.g., companies exposed to pesticides, palm oil or fossil fuels), and promote natural capital protection, investments, green bonds and nature-positive operation of assets.

We trust that our initial observations are of assistance. If you have any questions or comments in relation to our submission please contact Ange Nichols, Adviser, Climate Action & Resilience, ange.nichols@insurancecouncil.com.au.

Yours sincerely,

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