



Beyond COP26: A critical decade for climate change

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The COP26 climate summit hosted by the UK in Glasgow has ended with an agreement that for the first time targets fossil fuels as the main cause of global warming.

After extended negotiation, countries decided to “phase down” rather than “phase out” coal. As covered in our [COP26 blog series](#), commitments were made to stop deforestation, reduce methane emissions by the end of the decade, and accelerate the move towards renewable energy.

Financial organizations agreed to continue supporting net-zero initiatives, while countries pledged to republish their climate action plans — with more far-reaching emissions reduction goals for 2030 — by the end of the year. The US and China also agreed to increase cooperation on climate issues.

“ Critical decade

There is no doubt the next decade is “the critical decade,” with COP26 seen as the turning point in climate action. The summit allowed countries to establish a common ground, and collectively find ways to overcome barriers to achieve climate objectives.

Countries will need to deliver on commitments to ultimately meet the COP26 goals, which were:

- 1 Secure global net zero by mid-century and keep the target of 1.5°C within reach.
- 2 Protect communities and natural habitat.
- 3 Mobilize finance.
- 4 Establish ways of working together to deliver these goals.

A SUMMARY OF PROGRESS MADE ACROSS THE FOUR PILLARS OF COP26

1. Secure global net zero by 2050 and keep 1.5°C within reach

To have a chance of limiting global warming to 1.5°C, global emissions must be halved by 2030. World leaders committed collectively to limiting global warming to as close to 1.5°C as possible and “well below” 2°C. However, with a narrowing window of opportunity to keep global warming at 1.5°C, there is a strong possibility that firmer steps need to be taken to reach net-zero emissions in the future.

It is estimated that, based on the more specific nationally determined contributions (NDCs) of planned emissions cuts, the world is on track for between 1.8°C and 2.4°C of warming by the end of the century. Leaders and experts deemed the number one risk in terms of likelihood to be “extreme weather events with major damage to property, infrastructure, and loss of human life.” As president of the European Commission, Ursula Von der Leyen, said: “Cutting back on methane emissions is one of the most effective things we can do to reduce near-term global warming and keep to 1.5°C.”

Some 100-plus countries (including the US, Japan, and Canada) committed to reducing methane emissions by 30% by 2030 — compared to 2020 levels. Initiatives emphasize the reduction of leakages from fossil fuel infrastructure.



“Cutting back on methane emissions is one of the most effective things we can do



2. Adapt and protect communities and natural habitats

On **deforestation**, more than 100 countries, together making up 85% of the world's forests, have established funds in excess of £15 billion (US\$20.45 billion) as part of the pledge to stop and reverse deforestation. Brazil — where there has been destruction of swathes of the Amazon rainforest — was among the signatories. This agreement highlights the importance of supporting indigenous people and local communities, as part of the COP26 accord.

However, there have been criticisms of how deforestation is defined in the pact, backed with almost £14 billion of public and private funds, and some countries, like Indonesia, have expressed that they may not abide by the agreement.

On **oceans**, there was a call for nature-based solutions and global support for the protection of at least 30% of the global ocean by 2030. Another theme was the important role of mangroves, salt marshes, and sea grass in carbon sequestration. Groups are exploring whether blue carbon credits could be used to fund conservation and restoration of these important carbon sinks.

On **nature and land** use, attention was given to the loss and damage caused by climate change and the adaptation that will be needed to tackle it. There was a consensus on the need to start building resilience into our infrastructure by, for example, using defenses and warning systems; restoring ecosystems and enhancing their protection; and instilling a culture of sustainability among communities.

3. Mobilize finance

A goal of the Glasgow summit was to get developed countries to meet their COP20 promise of providing at least US\$100 billion a year in climate-related finance to developing countries to limit global warming. In 2019, there was a shortfall of over US\$20 billion, regarding this undertaking.

At COP26, 95% of the top 20 developed countries made pledges beyond their commitment to mobilize US\$100 billion for climate finance in developing countries by 2020. Included in this figure was US\$12 billion towards reversing forest loss by 2030.

There were also commitments to ambitious and stringent targets in support of electric vehicles, including funding that helps reduce the cost of EV.

4. Work together to deliver

In order to achieve the net-zero and global warming targets, all countries are expected to present and commit to ambitious 2030 emissions reduction targets.

These targets will revolve around the UN's four-pronged approach of phasing out of coal, accelerating the switch to electric vehicles, curtailing deforestation, and increasing investment in renewable energy.





“Accelerate efforts towards the phase down of unabated coal power and phase out of inefficient fossil fuel subsidies

On fossil fuels, the world spends more than US\$420 billion (£313 billion) a year subsidizing non-renewable energy, according to the UN Development Programme.

The Glasgow accord committed to the Paris Agreement to “accelerate efforts towards the phase down of unabated coal power and phase out of inefficient fossil fuel subsidies.”

The announcement by India — the world’s third biggest greenhouse gas producer — that it would commit to an ambition of net zero by 2070 and plans to generate half its electricity from renewables by 2030 was cause for optimism.

Governments and international organizations outlined the measures they intend to take to more quickly scale up clean power and sustainable energy. There was a clear call for a global action to transform food chains and make food trade sustainable.

Essential for the resilience of our communities, the sustainable adaptation of urban areas was pinned as key to the acceleration of climate action. To this end, the need to implement environmental, social, and governance (ESG) criteria was highlighted. Investment and innovations in these areas will be needed to ensure transition to reach these targets.

Finance sector key commitments

The financial sector has been a key accelerator for the transition to clean energy. Below are the milestone financial sector commitments and announcements made across the two weeks at COP26.

1. Banks, pension funds, and other financial institutions

- **Glasgow Financial Alliance for Net Zero:** More than 450 financial firms, from 45 countries, responsible for more than US\$130 trillion in financial assets, have committed to aligning their operations and financing to achieve 1.5°C, [supported by Oliver Wyman, as its knowledge partner](#).
- The **IFRS Foundation** announced the formation of a new **International Sustainability Standards Board (ISSB)**, which seeks to develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs — building further upon the work of the Task Force for Climate-related Financial Disclosures (TCFD), which will continue to be taken forward in 2022.
- The **UK** announced the intention to become the world's first net-zero aligned financial center, with a new requirement for mandatory **net-zero transition plans** for UK financial institutions and companies.
- The **Network for Greening the Financial System (NGFS)** announced that 100 central banks and credit rating agencies have now joined their network and signed the **NGFS Glasgow Declaration**, which included a continued commitment to advance supervisory practices.
- The **Bank of England** announced that it will shift gears to actively supervise firms on climate-related financial risks and recognizes that capital may have a bigger role to play in providing resilience against the consequences of climate change.



2. Insurance market and risk managers

The need for innovation at a country level, and support from industries like the insurance industry was highlighted at COP26.

The opportunity for innovation in **risk transfer, underwriting, and risk management** to support global ambitions was explored, with a call for “insurers to formulate new approaches to managing risk and developing **nature-positive insurance products.**”

Attention was paid to underwriting within the insurance sector, and the crucial role it can play in the transition to net-zero emissions. With timeliness a key factor in these COP26 discussions, there is scope for underwriting to be a more immediate lever for change.

Under the UK government initiative, (re)insurers and brokers will be required to publish their net-zero transition plans detailing how they will adapt and decarbonize as the UK moves towards a net-zero economy by 2050.

Meanwhile, **Lloyd’s** plans to introduce a measurement framework to monitor syndicates’ carbon underwriting. The framework will be piloted by managing agents in 2022, before being refined and scaled up in 2023. Lloyd’s is also chairing the Insurance Task Force (ITF) of [The Sustainable Markets Initiative \(SMI\)](#), led by HRH Prince of Wales, which has launched the **Disaster Resilience Framework** for climate-vulnerable countries. Marsh McLennan is a member of the SMI ITF and co-leader of the sustainable product and services development workstream.

As former Bank of England governor, Mark Carney, said: “On risk management, our objectives are to have banks and insurers systematically assess the resilience of companies and the financial sector to climate risks; and to have banks disclose financed emissions. The insurance sector, for its part, is developing products to de-risk the transition and improve physical risk modeling to increase coverage.”

Action to take

The path ahead involves significant action on the part of governments, communities, companies, and organizations to prevent further global warming. Insurance is key to facilitating change in society and is ready to play its role in this next crucial decade.

To learn more about how Marsh or Marsh McLennan can help you navigate your climate and sustainability risks, please speak to your Marsh advisor.



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