2 Strategic Pillar: Stewarding the human impacts of climate change

We recognise that climate change presents a serious global challenge, with significant potential economic consequences and direct and indirect impacts on people's health and livelihoods, and we are proactive in enabling the transition to a low-carbon economy. We do this by decarbonising our investment portfolio and working towards sustainable development and energy transition in all our markets. Reflecting the stage of their development, the economies in which we operate tend have a greater reliance on fossil fuels and more exposure to carbon intensive industries than in more developed markets. For example, for the five largest South-east Asian economies of Indonesia, Thailand, Malaysia, the Philippines and Vietnam (plus China) an average of 36.2 per cent of GDP was derived from mining, manufacturing and other industrial activities in 2018. This compared to 18.6 per cent and 17.5 per cent for the US and UK respectively in the same year. This means that the energy transition across the region is likely to proceed at a different pace than for more advanced economies. Recognising this, as we support the move to a lower-carbon economy in these emerging markets, we strive to ensure that the transition is an inclusive one for all of society – one that supports sustainable growth and economic health within our local markets and communities.

Decarbonising our investment portfolio

Our strategic focus on stewarding the human impacts of climate change through decarbonisation of our investment portfolio over time recognises that climate change presents long-term risks to the sustainability of our business. It also acknowledges that, as a responsible corporate citizen, Prudential needs to play its part in the transition to a lower carbon global economy and the collective efforts to limit the rise in global warming that can lead to catastrophic climate change. As a significant investor and an asset owner with long-term investment horizons and liabilities, the Group is vulnerable to climate-related transition risks, and in a position to invest in, and develop, products linked to climate resilience. Our approach to reducing the carbon footprint of our investment portfolio is one which supports sustainable growth and takes into consideration the impact on the economies, businesses and customers in the markets in which we operate and invest.

Approach to climate-related risk

Prudential is a signatory to the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). Our approach to climate change and climate-related risk is covered below. To show how we are meeting TCFD requirements, we have mapped our disclosures to each of its pillars. This is shown in a table at the end of this section of the report.

Initially categorised as emerging risks, the ESG risks associated with our business, which include climate risk, have more recently been upgraded to Group Principal Risk status. Recently, we have engaged a dedicated climate risk consultancy to further refine our understanding of the nature and materiality of the risks posed by climate change to the business.

The table below lists the key climate risks facing Prudential. The sections that follow provide further detail on the activities undertaken to assess, manage and mitigate these risks.

Risk category	Description	Response
Assets	The Group has financial exposure to assets in carbon-intensive and carbon-reliant sectors that may fail to adapt, innovate or pivot to a lower-carbon business model. These assets are at risk of taxation, regulation and/or reduced demand, leading to impairments or downgrades and/or stranding. Physical climate impacts can also lower the value of assets held.	— Development of metrics to measure the potential financial impacts from climate-related transition risk in the asset book. — Use of scenario analysis to model the exposure assuming different pathways and different temperature scenario.
Insurance	Given the complex interactions with other environmental, demographic and social changes, the impact of climate change on mortality and/or morbidity can be difficult to reliably estimate on a standalone basis.	— Qualitative assessment of the potential impacts from climate risk on our insurance liabilities.
Data and model limitations	Methods for assessing and quantifying the financial impact of climate risks continue to evolve in the industry and also within the Group. The limitations in data and asset and liability modelling make it more difficult to accurately assess the financial impact on the Group, particularly for longer-term time horizons.	— Participation in industry groups and collaboration with data and risk modelling providers to help drive improvements in climate data quality and risk modelling tools.
Regulatory and legislative compliance	The pace and volume of new climate-related regulation across all markets could pose compliance and operational challenges that may necessitate multi-jurisdictional coordination.	— Regulatory change teams are in place to assist the business in proactively adapting and complying with regulatory developments. — Constructive engagement with policymakers and NGOs.
Operational resilience	Operational impacts from physical risk events challenge operational resilience, including impacts to third parties and the servicing of our customers.	— Regular updating and testing of elements of disaster-recovery plans and the Critical Incident Procedure process. — The use of scenario analysis using data sources (including IPCC data) to identify additional vulnerabilities to physical risk.

The risks are also influenced by the broader political, economic and societal backdrop in which the Group operates. These factors interact with, and can amplify and shape, the impacts of climate-related risks. Examples of risk factors that could exacerbate climate risks include geopolitical issues, political processes, such as negotiations to curb emissions, or the unfolding Covid-19 pandemic, which is reshaping global economic activity.

Activity throughout 2020

Work to quantify and model the nature of our climate risk exposure has continued throughout 2020, consistent with our strategic focus on climate change risk and in alignment with the TCFD recommendations. The Group Risk and Group Actuarial functions have led efforts to deepen understanding of the exposure to climate-related risks in our asset management and asset owner businesses across the Group. Activity has included the identification of metrics to measure exposure to greenhouse emissions, measuring the carbon footprint of our asset book, the selection of scenarios for stress testing assets, and investment in new tools to support carbon footprinting and scenario analysis.

A key activity has been the use of scenario analysis to model the Group's exposure to climate-related risk, assuming different transition pathways and temperature scenarios (see case study). The modelling has helped to further our understanding of the nature of the climate risk the Group faces. This has reinforced that the main financial risk is to the asset side of the balance sheet. This finding is consistent with our business model: as a major asset owner and manager, we rely on investment returns to meet the longer-term obligations of our liabilities and thus are vulnerable to risks that interrupt or impair those returns. The finding also reinforces the case for the strategic objective to decarbonise the investment portfolio, which is both a way in which Prudential can limit its exposure to potential transition risks, as well as contribute to global efforts to decarbonise the global economy.

The potential impact from climate risk on our insurance liabilities has also been investigated. To better understand the potential impact to our insurance liabilities, a qualitative assessment of the impact of climate-related risk on insurance risk was carried out by Group Actuarial during the year. This established that over the short term, such as over the three years of the current business plan cycle, climate change is not expected to materially increase or decrease claims for our life and health business. Over the longer term, the financial impacts from climate-related risks on our insurance liabilities could be more significant, for example on reserving implications, if there is a step change in long-term morbidity and/or mortality expectations, and medical inflation. However, the overall financial impact will be mitigated by our ability to reprice contracts and develop new products.

Response to climate-related risks

We believe that the new strategic ESG framework and the long-term goals to decarbonise the investment portfolio and support an inclusive transition are an important way in which we can meet to meet stakeholder expectations and fulfil our fiduciary obligations. It will reduce the Group's exposure to asset risk – which includes transition risk – over time, while also contributing to efforts to decarbonise the global economy.

Recognising that transition risk represents the nearest-term and most impactful financial risk to the Group, the Group Risk function undertook an initial transition risk analysis on insurance assets managed in segregated portfolios by the Group's asset managers. This focused on investments where Prudential both maintains direct control of the mandate and exerts some influence over the investment process. Provisional reports were produced using climate-related data and metrics provided through a proprietary vendor tool. This facilitates a breakdown of the contributions of different sectors to the overall carbon footprint metrics of the asset book and highlights the most carbon-intensive sectors, including those most at risk of being stranded. It also enables the most carbon-intensive companies held in the asset book – and thus the largest issuer contributors to the overall metrics – to be determined and monitored. We have also determined the initial weighted average carbon intensity (WACI) of the listed equity and corporate bond asset classes of our insurance investment portfolio.

Case study

Modelling climate change risk: The role of scenario testing

During 2020, the Group undertook a stress testing exercise based on the three scenarios laid out within the PRA Insurance Stress Tests: orderly transition (temperature increases kept below 2°C , meeting the Paris Agreement); disorderly transition (temperature increases kept below 2°C but with delayed and sudden policies); and failure to meet the Paris Agreement (specifically, reaching a temperature increase in excess of 4°C assuming no transition and a continuation of current policy trends), with a time horizon up to 2100. The Group's entire asset portfolio was included, and the testing included the impact of physical and transition risk on the asset portfolio for the chosen scenarios. The impacts of climate change on insurance liabilities was also investigated.

These stress tests have informed discussions on how to assess the Group's business objectives and strategy and have provided further insight into the capabilities and data required for future stress modelling. These analyses have also been complemented by reviewing alternative scenario testing methodologies using tools provided by specialist vendors or open solutions.

The Group is continuing to explore and develop its scenario analysis approach, including investigating the use of the Group's economic capital model, and ultimately formalise the process for conducting sophisticated climate scenario analysis as part of the Group's risk management frameworks.

Building on this work, we are continuing to develop metrics that are appropriate for our business, to support an enhanced management and reporting process for climate risk. As well as WACI, other potential metrics under consideration include the percentage of the portfolio in carbon-intensive sectors, stranded asset exposure as a percentage of assets under management, and portfolio exposure to clean technology solutions. These metrics were considered at a Board Risk Committee workshop held to discuss the potential business impacts of transition and physical climate risks. Work to enhance the management and reporting of climate risk will continue in collaboration with our asset management and asset owner business units, with the aim of integrating climate risk metrics and monitoring into broader investment processes and aligning with the responsible investment framework.

We also continue to develop our scenario testing capabilities and have engaged with a climate risk consultancy to perform a focused exercise using their scenario modelling capability. Investigating different methodologies supports the Group's ability to determine climate scenarios appropriate to its nature, scale and complexity. The potential impacts of different scenarios on the balance sheet were discussed in 2020 with the Technical Actuarial Committee (TAC), which sets the methodology for the economic capital model. To date, the impacts have been indirectly incorporated into the economic capital model via the market risk calibrations. No additional adjustment is considered necessary at this time and this will be kept under regular review.

Our existing business continuity management programmes are assessing the risk of natural disasters, including those caused by significantly altered climatic conditions, such as increased frequency and severity of tropical storms or increased flooding. The Group remains focused on its operational resilience and is supplementing existing activities with scenario analysis to identify additional areas of vulnerability that may arise due to climate change, including assets, operations, third party supply chains and customers. Group Risk has trialled a number of dedicated risk management platforms and has shared the outputs with local business continuity teams to help inform assessment and management of physical risks to operations in territories for which they are responsible.

Transparency and engagement

As well as the work to enhance internal management and reporting of climate-related information, we participate in external benchmarks to provide additional visibility to stakeholders on our climate-related activity. We aim continually to improve the transparency and utility of our reporting.

In 2020, we continued to participate in CDP (formerly the Carbon Disclosure Project) and maintained our score with a B grading (2019: B). We continue to participate in ClimateWise and received an improved score of 68 per cent (2019: 51 per cent), which we believe reflects the progress we have made over the year in our management and reporting of climate issues.

To help address industry issues, such as the limitation of climate-related disclosures and evolution of data availability and climate risk modelling for financial market participants, we participate in industry bodies that can help drive improvements in risk management processes and lobby for improved standards.

We also seek to collaborate with peers and other investors to amplify the impacts of our activity in this area. These activities are described in more detail in the Responsible Investment section on page 34.

As noted in the list of material risks, the pace and volume of regulatory and legislative compliance developments poses a challenge to the Group. As part of our ongoing government relations activity, we regularly engage with regulators and monitor evolving climate risk-related initiatives that could develop into new regulation in the markets in which we operate. In a similar manner, we also engage constructively with policymakers and NGOs to shape the evolution of regulation and standards relating to climate risk. For example, during 2020 Prudential Hong Kong joined an industry-wide task force established by the Hong Kong Insurance Authority and Hong Kong Federation of Insurers to work on several areas within 'green insurance'. More information on our engagement and regulatory interactions, including those related to climate risks and opportunities, can be found in the Responsible Investment section on page 34.

Supporting an inclusive transition

Our Asian markets include highly developed economies such as Hong Kong and Singapore that have diversified, service-led economies and mature financial markets, and emerging markets that are more dependent on primary and energy-intensive industries. These emerging markets have a greater reliance on fossil fuels in their generation mix, and less developed financial systems.

This means that the energy transition across the region is likely to proceed at a slower pace than for advanced economies as reflected in the countries' Nationally Determined Contributions, as required by the Paris Agreement. This point was highlighted by Mr Ravi Menon, Managing Director of the Monetary Authority of Singapore (MAS). Speaking at a Financial Times Investing for Good Asia Digital Conference on 13 October 2020, Mr Menon noted that 'Asia is at a different stage of development, with millions of people still lacking access to electricity, modern sanitation, and drinking water. While demand for affordable energy will continue to grow strongly, most Asian economies are still heavily dependent on fossil fuels for their energy needs and it is unrealistic to suddenly replace fossil fuels with renewable energy.'

For Prudential, this means that, while we are committed to an objective to decarbonise our investment portfolio, we are mindful of the need to implement the strategy in a way that acknowledges the nature of the markets in which we operate and seeks to share the financial and social burden of the transition in a fair manner. Our support for an inclusive transition aims to balance our responsibilities and obligations to all our stakeholders.

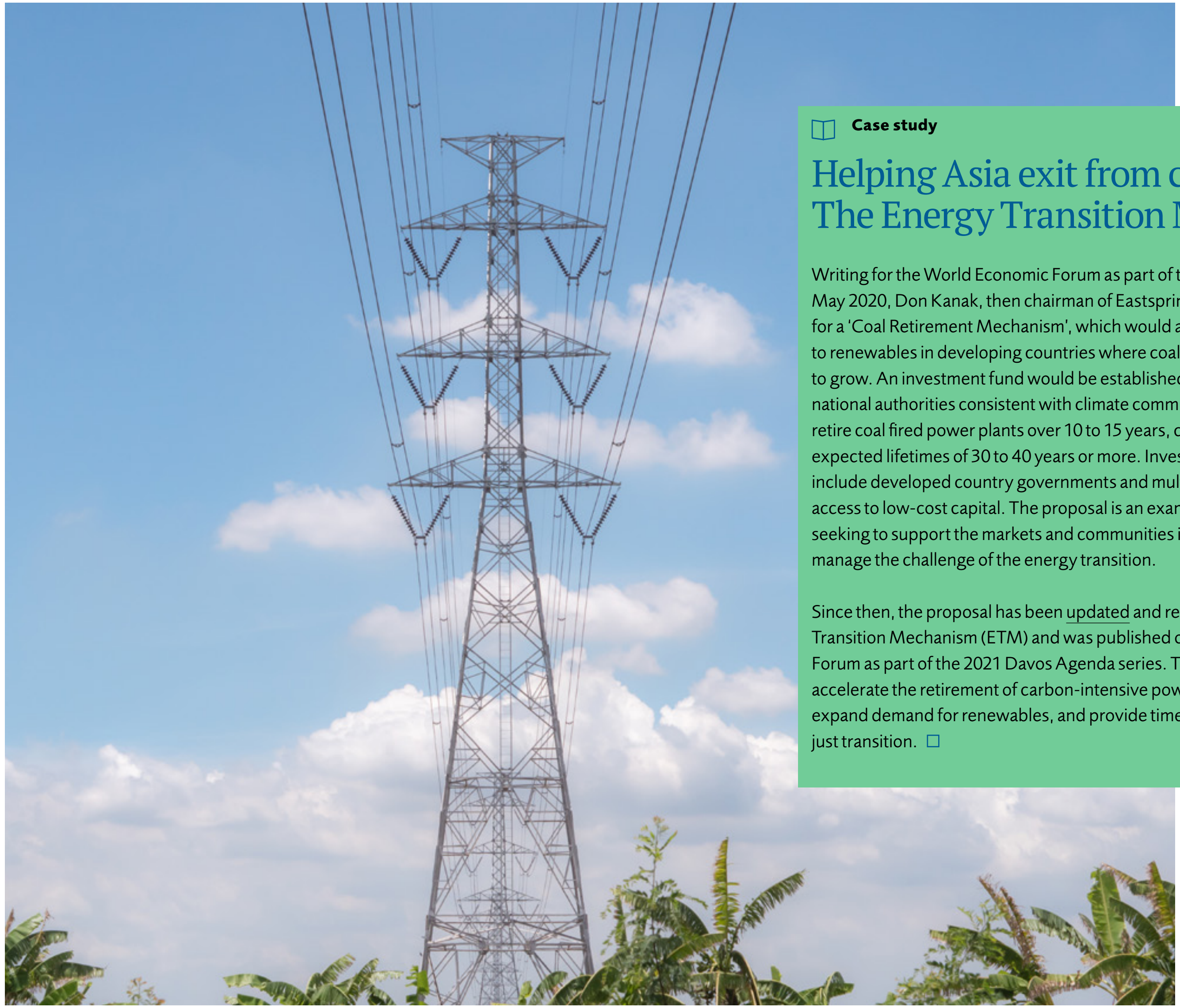
We recognise the importance of coalition building in delivering an inclusive transition. As a member of the Sustainable Development Investment Partnership (SDIP), coordinated by the World Economic Forum with support from the OECD, we work with public and private sector institutions in emerging markets, particularly in South-east Asia, to scale domestic and international investment in sustainable infrastructure and promote energy transition. The SDIP's ASEAN Hub, whose Steering Group Prudential has co-chaired since 2017, launched a Sustainable Investment Innovation Roundtable in 2020, a monthly forum to catalyse new ideas for scaling up investments to further the SDGs.

Capturing opportunities

We also recognise that the implementation of our strategic ESG framework can generate opportunities for the Group. Some of these opportunities will come through our efforts to take early mitigating action against the climate risks we identify, including incorporating transition risk into investment decisions to reduce the risk of being exposed to stranded assets.

Others will come through supporting an inclusive transition. The infrastructure and capital expenditure required to enable the transition represents attractive investment opportunities in many cases. For example, there is a role for institutions to both develop new products and invest in structures and mechanisms that enable a managed withdrawal from reliance on coal-powered electricity within developing economies.

In response to this, we have developed several responsible investment products that channel our customers' savings towards ESG-themed investments, such as the Asia Sustainable Bond Fund recently launched by Eastspring. More information on our ESG-related investment activity is available in the Responsible Investment section on page 34.



Case study

Helping Asia exit from coal: The Energy Transition Mechanism

Writing for the World Economic Forum as part of the Great Reset series in May 2020, Don Kanak, then chairman of Eastspring, outlined a proposal for a 'Coal Retirement Mechanism', which would accelerate the transition to renewables in developing countries where coal use is high and poised to grow. An investment fund would be established in collaboration with national authorities consistent with climate commitments to purchase and retire coal fired power plants over 10 to 15 years, cutting short their expected lifetimes of 30 to 40 years or more. Investors in the fund would include developed country governments and multilateral banks with access to low-cost capital. The proposal is an example of how we are seeking to support the markets and communities in which we operate to manage the challenge of the energy transition.

Since then, the proposal has been updated and renamed as the Energy Transition Mechanism (ETM) and was published on the World Economic Forum as part of the 2021 Davos Agenda series. The ETM would accelerate the retirement of carbon-intensive power assets, dramatically expand demand for renewables, and provide time and resources for a just transition.

Climate change is also likely to drive demand for new health products, given the linkage of climate change to human health through changes in the incidence of diseases and the emergence of new diseases. We have launched a dengue alert service to customers in some Asian markets through our Pulse super-app. The decision to offer the application reflects the increasing incidence of dengue fever in the region, driven by warmer temperatures and higher humidity. This alert service is complemented by the provision of affordable insurance plans for the markets in which dengue is prevalent – see Inclusive offerings within Making health and financial security accessible for more information.

Next steps

Over the next three years, we will work to strengthen management of climate risk across the Group. We will approach this as a Group-wide cross-functional initiative, with participation from our asset owner and asset manager businesses, risk, actuarial, and government relations colleagues.

Scenario analysis will be an important area of focus as we plan to move it into our mainstream risk management processes during 2021 and to begin internally reporting findings within Group and business unit level management information. As we further investigate how climate risk impacts our business in the long term, we aim to operationalise and to continue to increase the use of scenario testing. We plan to voluntarily run scenario tests emerging from regulators, such as the Bank of England's exploratory climate risk scenario for banks and insurers in 2021.

We are aware that many companies have set targets in alignment with the Paris Agreement. We are in the process of assessing similar suitable targets in respect of the carbon emissions from our investments, given their importance within our overall emissions profile, and our overarching strategic commitment to decarbonising our investment portfolio.

In the interim, we continue to increase our level of ambition in relation to our own emissions footprint. This year we have set new and stretching targets for our Scope 1 and Scope 2 greenhouse gas emissions, with the aim of becoming net carbon neutral across these two scopes by the end of 2030. More information on the environmental impact of our direct operations is available on page 46.

During 2021 we will continue to scale up our engagement strategy with key policy and political stakeholders around the COP26 conference in November with a focus on financial sector issues to support the just transition and sustainable finance priorities in particular for emerging markets.

TCFD: Disclosure Alignment

Pillar	Recommended disclosure	Response reference	Additional comments
Governance Disclose the organisation's governance around climate-related risks and opportunities.	a) Describe the Board's oversight of climate-related risks and opportunities.	Oversight of ESG (page 7); Response to climate-related risks (page 21)	***Board oversight of climate change risk significantly strengthened:*** — In 2020 ESG was overseen by the Board through the Group Nomination & Governance Committee. — In early 2021, the Board established a Responsibility & Sustainability Working Group until May 2022 in order to ensure an appropriate level of Board engagement in, and oversight of, ESG matters (including climate change). — Board Risk Committee workshop held to evaluate the climate change risks facing the Group, discuss transition and physical risk concepts and review potential Key Risk Indicators (KRI).
	b) Describe management's role in assessing and managing climate-related risks and opportunities.	Oversight of ESG (page 7); Governance (within the Responsible Investment section) (page 34)	***Management oversight enhanced:*** — Group ESG Committee established to oversee ESG (including climate-related risks), chaired by the Group Chief Financial Officer and Chief Operating Officer, supported by senior functional leaders and representatives from the Group's business units. — Work is under way to bring climate risk into the scope of other relevant governance structures, such as the Group Responsible Investment Advisory Committee (GRIAC) that provides overall review and recommendations for policies on responsible investment activities including climate related investment strategies. — The Technical Actuarial Committee (TAC) is responsible for setting the methodology for Prudential's assets, liabilities and capital requirements, which includes the consideration of climate change.

Pillar	Recommended disclosure	Response reference	Additional comments
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Approach to climate-related risks (page 20); Capturing opportunities (page 22)	***Risk identification work completed:*** — The risk identification and scenario process has identified six major risk categories. ***Opportunities identified to support climate change mitigation and adaptation:*** — The Pulse digital health platform supports the surveillance and diagnosis of diseases that are becoming more prevalent due to climate change. — Investment products include the Asia Sustainable Bond Fund launched by Eastspring
	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Our ESG strategy (page 4); Response to climate-related risks (page 21); Supporting an inclusive transition (page 22); Next steps (page 23)	***New ESG Strategic Framework being rolled out:*** — A new framework includes stewarding human impacts of climate change as a key pillar via decarbonising the investment portfolio and pursuing an inclusive transition. The strategy will drive and shape the Group's overall response to climate change in future years. ***Capacity building efforts continuing:*** — This includes membership of climate risk bodies, such as Climate Action 100+, and investor initiatives (eg, the PRI in an asset manager capacity).
	c) Describe the potential impact of different scenarios, including a 2°C scenario, on the organisation's businesses, strategy, and financial planning.	Next steps (page 23); Capturing opportunities (page 22)	***Adoption of further targets under review:*** — Process under way to assess suitable targets in respect of the carbon emissions from our investment portfolio. — Potential to explore further environmental/climate risk opportunities (such as the development of investment, insurance and digital products to support climate risk).

Pillar	Recommended disclosure	Response reference	Additional comments
Risk management Disclose how the organisation identifies, assesses and manages climate-related risks.	a) Describe the organisation's processes for identifying and assessing climate-related risks.	Approach climate-related risks (page 20)	***Material climate change risks facing the Group have been identified and assessed:*** — Relevant climate risks identified through the emerging risk, Group Principal Risk and Risk Identification processes. — This output has been supplemented with an in-house analysis of transition risk across specimen insurance portfolios and a materiality assessment undertaken in collaboration with an external consultant. — Initial stress test of the Group balance sheet carried out to establish the broad quantum of financial exposure to transition and physical and liability risk. ***Policy surveillance and engagement/Peer benchmarking:*** — Regular monitoring of regulatory and policy initiatives globally has been initiated.
	b) Describe the organisation's processes for managing climate-related risks.	Response to climate-related risks (page 21); Next steps (page 23); Responsible Investment (Engagement) (page 35)	***Climate-related risk is integrated into risk management considerations:*** — Developing metrics appropriate for the business, to support an enhanced management and reporting process of climate risk (eg WACI). — Analysis of the impact of climate change on capital modelling has been undertaken by Group Actuarial and submitted for consideration by TAC. — Regulatory change teams proactively adapting and complying with regulatory developments. — Operational resilience relating to climate risks captured by the Group Business Continuity Management programme. — Active engagement with carbon intensive companies (including through industry collaborations).
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Response to climate-related risks (page 21); Next steps (page 23)	***Further work to integrate climate-related risks in risk management processes under way:*** — Climate risk treated as a cross-cutting risk that has significant interdependencies with, and impacts on, other risk types. — Engagement with insurance industry forums and data providers to remain apprised of developments in this area.

Pillar	Recommended disclosure	Response reference	Additional comments
Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities, where such information is material.	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Response to climate-related risks (page 21); Next steps (page 23)	***Identification of potential metrics for measuring and reporting climate risk exposures completed:*** — 'Proof of concept' identified a set of potential metrics that could be used to assess and manage climate risk, including Weighted Average Carbon Intensity (WACI). ***Work underway to report additional climate-related metrics:*** — Appropriate metrics under consideration for each major asset class.
	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Environment (within Good governance and responsible business practices) (page 46)	***Disclosures provided:*** — Scope 1 and 2 emissions (market basis) declined by 13.4 per cent to 48,840 tCO_2e. — Intention to review our Scope 3 reporting boundaries and broaden these over time.
	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Next steps (page 23)	***New environmental targets set:*** — Target includes an aim to be carbon-neutral across Scope 1 and Scope 2 emissions (on a full-time employee basis) by the end of 2030. — Process under way to assess suitable targets in respect of the carbon emissions from our investment portfolio.