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Management of emissions and air pollution are biggest ESG risk factors for the largest UK Listed Companies

— **The UK's largest listed companies score 66.8/100 on ESG risks compared to 52.7 for smaller listed entities**

— **Large UK listed companies do best on their exposure to armaments industry and Diversity & Inclusion**

'Air pollution' and 'management of emissions' are the ESG risk criteria for which the UK's largest listed companies perform poorest, shows new research by Chaucer, the global specialty (re)insurance group as part of their ESG Balanced scorecard, which was created in collaboration with Moody's, the leading global provider of financial intelligence.

On average the UK's largest listed companies scored just 13.7 and 14.3 out of 100 for 'management of emissions' and 'air pollution', respectively. The third worst-performing area was 'respect and management of working hours' (16 out of a 100), reflecting poor disclosure of the companies' working time policy. The fourth lowest scoring area was 'responsible management of restructurings' (18.3), followed by 'protection of water resources' (20.3).

In contrast, the ESG risk criteria for which the UK's largest listed companies scored highest include: 'Weapons' or 'involvement in the armaments industry', for which the average score was (87.8 out of 100). In second place was 'Diversity & Inclusion' (79 out of 100), 'Forced resettlement' (79), 'Illegal fishing practices' (78.6) and 'Executive pay' (77.9).

Simon Tighe, Group Head of Investments Treasury & Credit Risk at Chaucer, says: "The reason why so many major listed companies achieve low ESG rankings is that they aren't disclosing enough data - which is the equivalent to them falling at the first fence."

"To date, not enough listed companies have even quantified and disclosed their greenhouse gas emissions, let alone published plans on how they will meet Net Zero."

"If UK listed businesses are going to achieve a high ESG rating then they are going to have to take the initial steps of publishing data that allows stakeholders to measure their performance. If they fail to do that they will achieve a low ESG rating almost by default."

"Businesses that have a low ESG rating will face significant challenges, not least as the regulatory environment develops. Corporates that have not been forthcoming with disclosures risk sending a message to investors that their ESG risks are not managed properly, putting off ESG-focused investment funds and business partners.”

Listed companies face growing pressure from regulators and governments to improve disclosures of matters concerning ESG, particularly when it comes to the Environment. From 6th April 2022, over 1,300 of the UK’s largest companies and financial institutions are required to report on climate-related risks and opportunities, based on recommendations by the Taskforce on Climate-related Financial Disclosures (TCFD).

On 28th November 2022, the European Council formally adopted the Corporate Sustainability Reporting Directive, which will replace and significantly expand the scope of existing sustainability reporting rules for large EU-listed entities.

Simon Tighe says: “As regulation on ESG tightens, corporates should be taking the lead and disclosing what action they plan on taking to become more sustainable, rather than simply reacting to external pressure.”

“A lack of relevant and reliable ESG data will hinder the insurance industry as (re)insurers will not have the full picture when it comes to ESG risk profiles. This could potentially create challenges for corporates when it comes to getting insurance coverage in the future.”

Chaucer’s scorecard, produced alongside Moody’s, uses up to 158 metrics to evaluate the ESG performance of a business, based on its disclosures. The design marries Chaucer’s expertise in underwriting risk, with Moodys’ data and ESG’s modelling expertise, to help businesses identify and manage ESG risks and opportunities.

The UK’s largest listed companies on average perform far better than smaller listed companies, with the average company in the top 100 scoring 66.8%, compared to 52.7% for the top 250.

Simon Tighe says that larger companies have come under greater pressure from activist shareholders to improve their ESG performance. As a result, they are increasingly adopting a more open approach in reporting ESG risks than their smaller competitors.

Simon says: “So far, the biggest companies have come under the most scrutiny, particularly those that are in sectors which are not considered the most ‘ethical’. However, with the remit of ESG regulation becoming broader, disclosing ESG data has become crucial for all large businesses.”

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About Chaucer

Chaucer are a leading specialty (re)insurance group working with brokers, coverholders and clients to protect and support business activities around the world. Our services are accessed both through Lloyd's of London and the company markets.

We are defined by an enterprising, bespoke approach to (re)insurance, enabled by the individual character, experience and imagination of our expert teams.

Chaucer is a member of the China Re Group and backed by their financial and operational resources. China Re is one of the world's largest reinsurance companies whose outstanding and comprehensive strength is rated A (excellent) by AM Best and A (strong) by S&P Global Rating.

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