

# 2022 Insurance Development Event

## Current macro and global challenges



The Insurance  
Institute of Guernsey  
Chartered Insurance Institute

Sustainability Version 2.0.2.2

*'Climate risk, pandemic, and war have finally morphed into good (sic) old-fashioned supply and demand shocks, inflation and, most likely, recession.'*

Dr Andy Sloan



**Netherite & Grunwaldt Advisory**  
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## First some introductions...

Dr Andy Sloan

MD, Netherite & Grunweldt Advisory

Founder, International Sustainability Institute, Channel Islands

Non-executive Director

Past roles

IPCC AR6 Expert Reviewer

Established Guernsey Green Finance

Deputy CEO, Guernsey Finance

Director Financial Stability & International Policy Advisor, GFSC

States Economist, Fiscal and Economic Policy Advisor



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# Agenda

The International Security implications of the war in Ukraine	Not good
The resultant direct impact on energy and food commodity prices	Not good
The impact of these commodity price increases on inflation, cost of living globally and a global supply chain that is still recovering from the Covid-19 pandemic	Not good
The impact of the war in Ukraine on European/UK/Guernsey energy supply – and how does this change priorities in terms of action on climate change	Not good
Any current developments/ trends in climate risk and the economy	I'm sure there are some



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# Agenda

The International Security implications of the war in Ukraine	Permanent
The resultant direct impact on energy and food commodity prices	Transitory
The impact of these commodity price increases on inflation, cost of living globally and a global supply chain that is still recovering from the Covid-19 pandemic	Transitory
The impact of the war in Ukraine on European/UK/Guernsey energy supply – and how does this change priorities in terms of action on climate change	Transitory
Any current developments/ trends in climate risk and the economy	Permanent



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# Global Imbalances and 'Sloan's Law'

Monetary

Fiscal

Debt

Trade

***"Things can remain in an unsustainable position for a very, very long time."***



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# 'A progress depends on the unreasonable man'

Andy Sloan offers his thoughts on Kwasi Kwarteng's mini-budget

**K**AMIKWASI! I don't think so. At the Credit Suisse golf dinner on Saturday night I got asked what I thought about Kwasi Kwarteng's fiscal measures last Friday. Yes, party with the dollar before the market. After a bit of mulling I decided I loved it. Yes, party with the dollar before the market. After a bit of mulling I decided I loved it. Yes, party with the dollar before the market. After a bit of mulling I decided I loved it.

But why do I love it? Two reasons. First, because it signals a break finally with the non-sensical and monetary policy of the last 15 years. I've written many times, sometimes quite hysterically, about the madness of free money, permanent near zero rates, distorted balance sheets and quantitative easing. Kwasi has forced the Bank of England's hand and it will clearly now have to raise rates faster and to higher levels than it originally planned. It will cause a surge of non-productive output, which will hurt, but that's been long overdue.

Second because it signals a welcome return to a focus on structural economic issues. For too long in this country, we have indulged in light over redistribution. Now we need to focus on growth, not just on how to tax and spend.

Kwasi's words signal that we now have a UK government that is willing to challenge the global tax agenda of French economist Thomas Piketty and Gabriel Zucman of the last decade that now dominates EU and OECD thinking. To date, it's gone unchallenged in the UK and even permeates the US Democratic Party too.

Kwasi, Kwasi he's our man, if he can't not just on how to tax and spend. Everything you've just read (other than that last, obviously tongue-in-cheek, sentence) was posted on LinkedIn first thing Monday morning. I reposted that there because I feel those words and opinion deserved a Guernsey Press audience. Actually, I feel they deserved any audience, because after more than 7,500 impressions in a few hours, it was reposted by LinkedIn moderators on the grounds of misinformation.

I don't see myself. You might disagree with my opinion, but surely it's recognized as such. I've appended and asked why. And just before finishing this piece, late Tuesday night, I've just received the response from LinkedIn and it's back up. But two days of being down, that's disturbing.

It's disturbing times. Sir Andrew Bailey seemed a man under pressure to me at the beginning of his mandate, an impression of a man under pressure to me at the beginning of his mandate, an impression of a man under pressure to me at the beginning of his mandate.

I seriously considered if he's going for this world.



UK Chancellor Kwasi Kwarteng. (3134349)

And just as go to file this column, there's another development. Agh! The IMF have just felt moved to comment on UK policy. Interestingly, rather than sticking to the macroeconomic as is their purview, they felt the need to have their two paragraphs on the impact on inequality of removing the 45% rate. Pity me, what have domestic distributional aspects of Kwasi's fiscal approach got to do with the IMF? Is this what Sir Andrew meant when he said modding with the Bank of England's independence would harm Britain's international standing? Disturbing.

It all has echoes of Utaux von der Leyen in New York last week warning Giscard Meloni just to become Italy's prime minister) not to get too carried away with his democratic mandate. If things go in a difficult direction, von der Leyen said in response to journalist questions, 'we [the EU] have tools'. Disturbing.

Jan Lantieri about the real road cross of Kwasi's mind statement. Despite the fact that it's popped in there this month too. Slipped in at the top of the policy letter agenda just before the Children's Law. I assume in the hope that it can be noddled through quickly without too much debate.

That's a shame, as it's a bit of a case study in consensus think. And I don't like consensus think. As you might have noticed, As General Patton said, if everyone's thinking alike, someone's not thinking.

The main argument presented in favour of participation in future trade agreements is that the 'Trade Policy Forum' is in favour. No details why are provided. This body is made up of leading business representatives and members of the 364 economists that wrote to The Times to condemn 'Flabby, consensual policy thinking is pretty de rigueur in 2022. Someone has to challenge the consensus'

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# Never mind Kwasinomomics we're all socialists now



## Guernsey's spending growth is out of control - and it's making us poorer and less internationally competitive, argues Andy Sloan

**O**RDNARILY, this column appears on the last Thursday of the month. My usual format is to pick upon some international economic issue and write down so fashion some local angle for domestic consumption. But just two weeks since I declared myself a self-styled Kwasi Kwarteng critic, events have moved me to the award of the Nobel prize for economics. And I'm not referring to the award of the Nobel prize for economics. And I'm not referring to the award of the Nobel prize for economics.

For the longest in this country we have indulged in a fight over redistribution. Now we need to focus on growth, not just on how to tax and spend. I will get moved into quite a later reading this stand-out quote from Kwasi's main budget statement. Despite the events of the last two weeks, I'm still strongly of the view there is a clear sign of determination to break with the old consensus narrative of the last 15 years.

But the consensus fought back hard. The IMF Mark Carney, even Michael Gove, all weighed in on the readiness of Kwasi's plan. And if I think I've been long before the fight over redistribution of the UK Business Secretary and dismay of the Labour Left apparently, especially just the final nail in the coffin of the attempt to reduce benefits expenditure, with the consent that the real economy is being left to rot. It looks like there might just be two Tories left in the Tory Party. So we're all socialists now.

It's clearly not just that the UK for workers' pay to be hit by inflation but not claimants' benefit. But it was very interesting presentation at the OGRG lunch on Monday. Another lunch of the OGRG lunch. As a weak anchor of Monday. Another lunch of the OGRG lunch. As a weak anchor of Monday.

But back to the apology I said I was sorry I've introduced the States to the notion of measuring public spending as a proportion of GDP in the fiscal framework. The variable is prone to manipulation, especially when you can change how you count the numerator and denominator without affecting anything. It's been used for several years now for the States to sanitise the presentation of inflation.

Because of the apparent low public spending as a proportion of GDP compared to other jurisdictions usually does the trick of misdirection. Despite all my ranting, I'm not sure I'm able to cling to the pretence that we're a low spending jurisdiction. For those clinging to that delusion, this next bit is going to hurt.

We're not, however, expenditure-intensive. But low public spending and low social security provision are not the same. Guernsey as the fourth-richest nation in the world, and interest payments by the way. And our spending is 120% per head higher than even this. The States continues to debate itself at our peril.

I've said it many times now, but I'll say it again. The fiscal transfer has been through in rather a couple of time since I left the States and been only superficial resemblance to its original format. It is used constantly to buy the public's attention, but it's not really a piece of professional work battered and ruined. It's a genuine concern about our tax base and economy. This



Andy Sloan

tax and spending habit is making us poorer and less internationally competitive. This notion of 'budgetary' for increased spending, a States phrase that continually find its way into reports, is misleading. It implies there's plenty of space for way into reports. There's not. Next year's budget expenditure comes in at £72bn. When I arrived in 2008 it was £59bn. I'm afraid that's not just an inflationary uplift. It's a third higher in real terms. That's equivalent to an £25.05 extra spending in today's terms per man, woman and child.

So I'm not of the fence. Our spending growth is out of control. Not from a bit of the population. I've even wagner most I never would have imagined it possible when I came here in 2008. But we have a serious credit debt problem in Guernsey, and it's one being penalized by most of our debtors.

We need to have a fiscal policy panel. It was modified on the principle of the UK's Office of Budget Responsibility. The one that Kwasi refused to have. I check his numbers before his main budget last time round. Okay. Last time I wrote this article, my guess is that I'm wrong. But I'm wrong. But I'm wrong.

But back to the apology. Another candidate for the next award for the Nobel prize is the Bank of England. This body's maintaining a debt level that's more than £1 trillion. It's not sustainable. They're being supported over this risk for more than a decade now. The State's low thing can't be sustainable for a very, very long time. There's no way to get out of this. The only way to get out of this is to get out of this.

Only through Liz Truss. PM in waiting, has suggested a £200 billion of new infrastructure. There have been books of protest from major quarters, including the opposition. The Bank of England said, and it's going to require money in my view. I'm not sure that's the best way to get out of this. The only way to get out of this is to get out of this.

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# And the booby prize goes to...



## With Inflation rampant Andy Sloan rates past performance of central bankers

**S**O ALL THIS. Mark Carney. Flexible reserves, both of you, will surely be pleased to note that I don't mention you for your contribution to the recent central banker of the last

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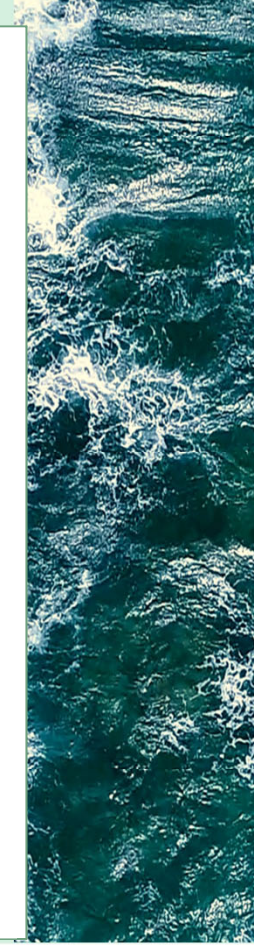
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Mark Carney, Governor of the Bank of England since 18 March 2020. (3138215)

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# Monetary policy



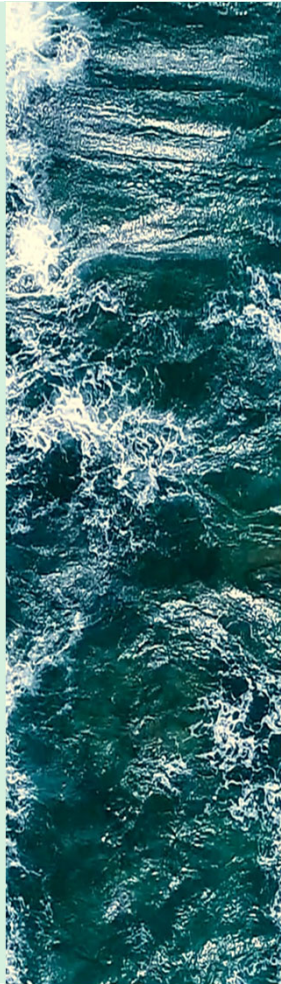
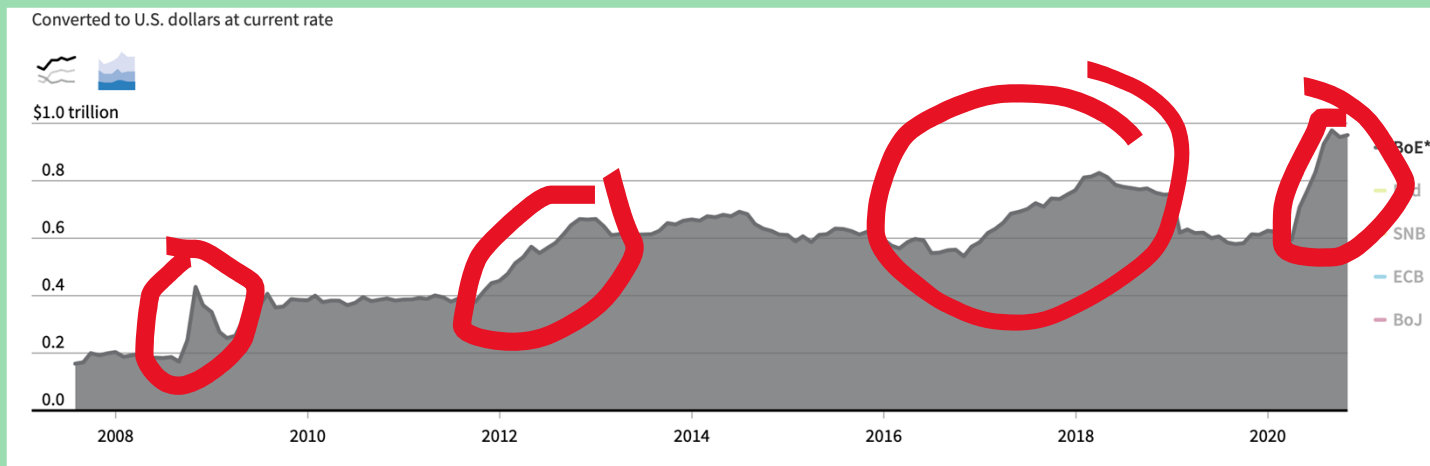
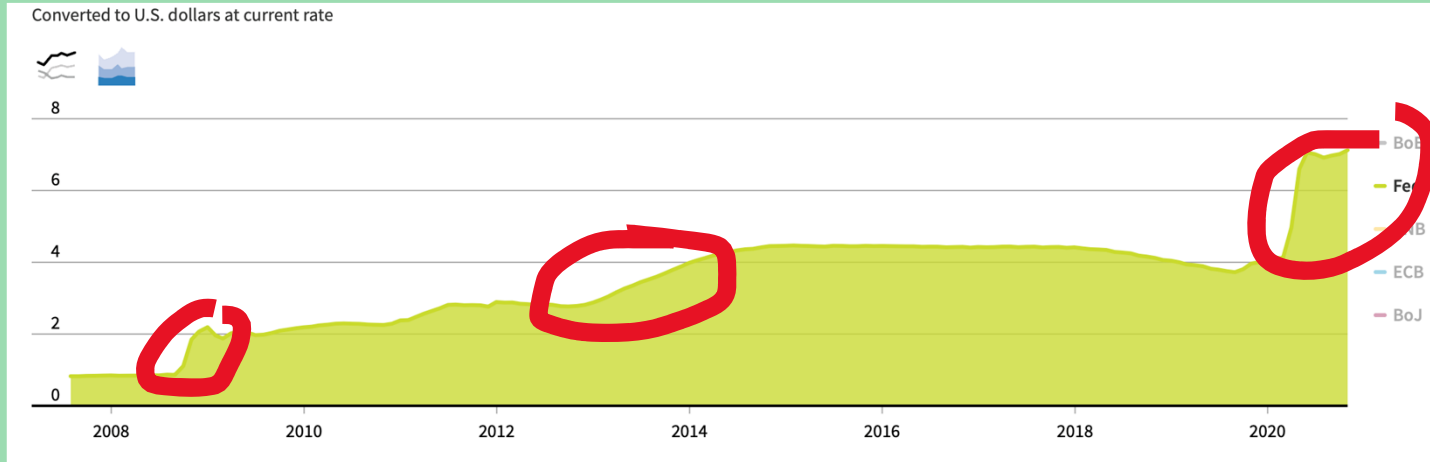
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# Monetary policy



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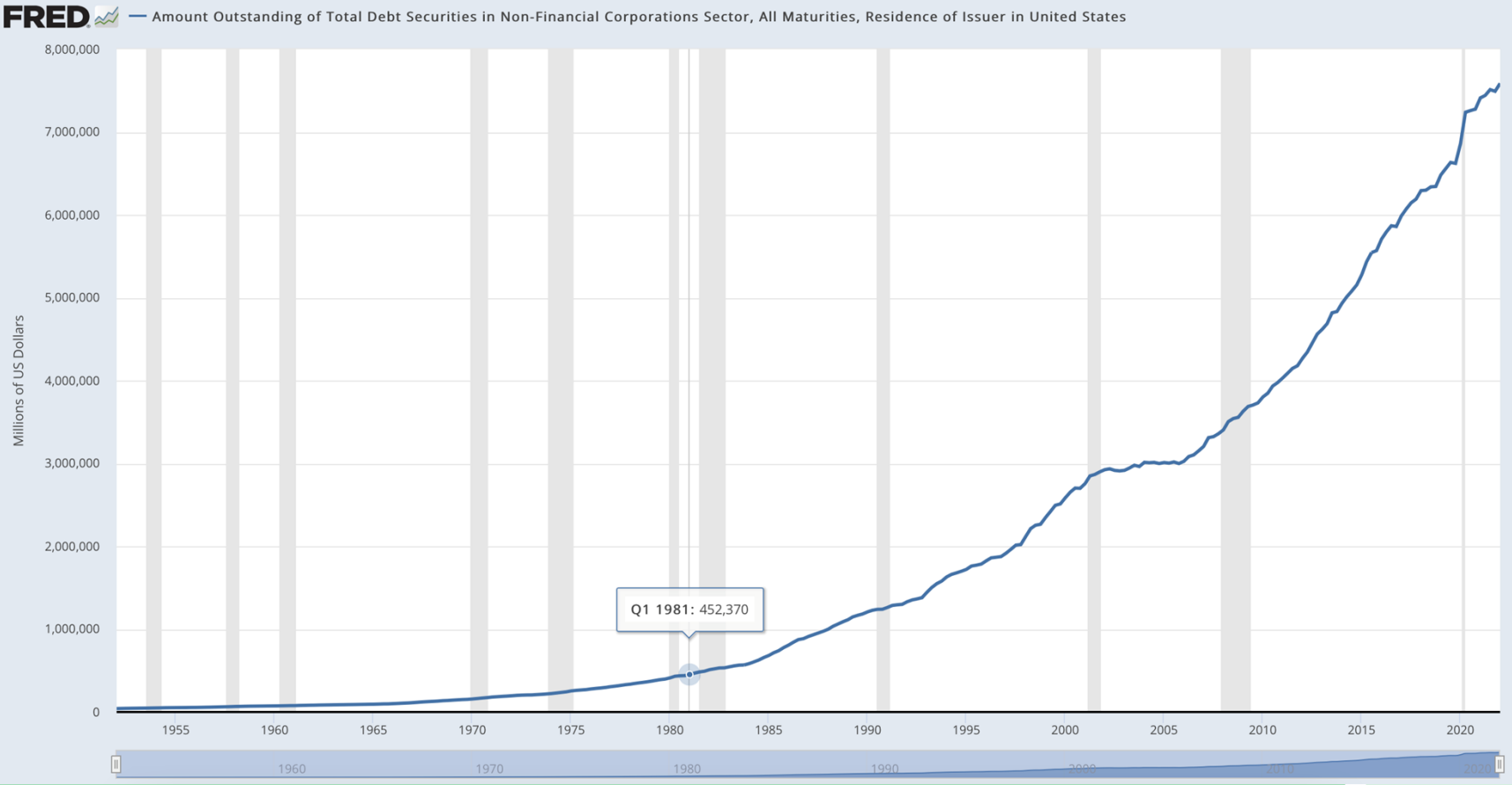




# Global debt issuance: non financials



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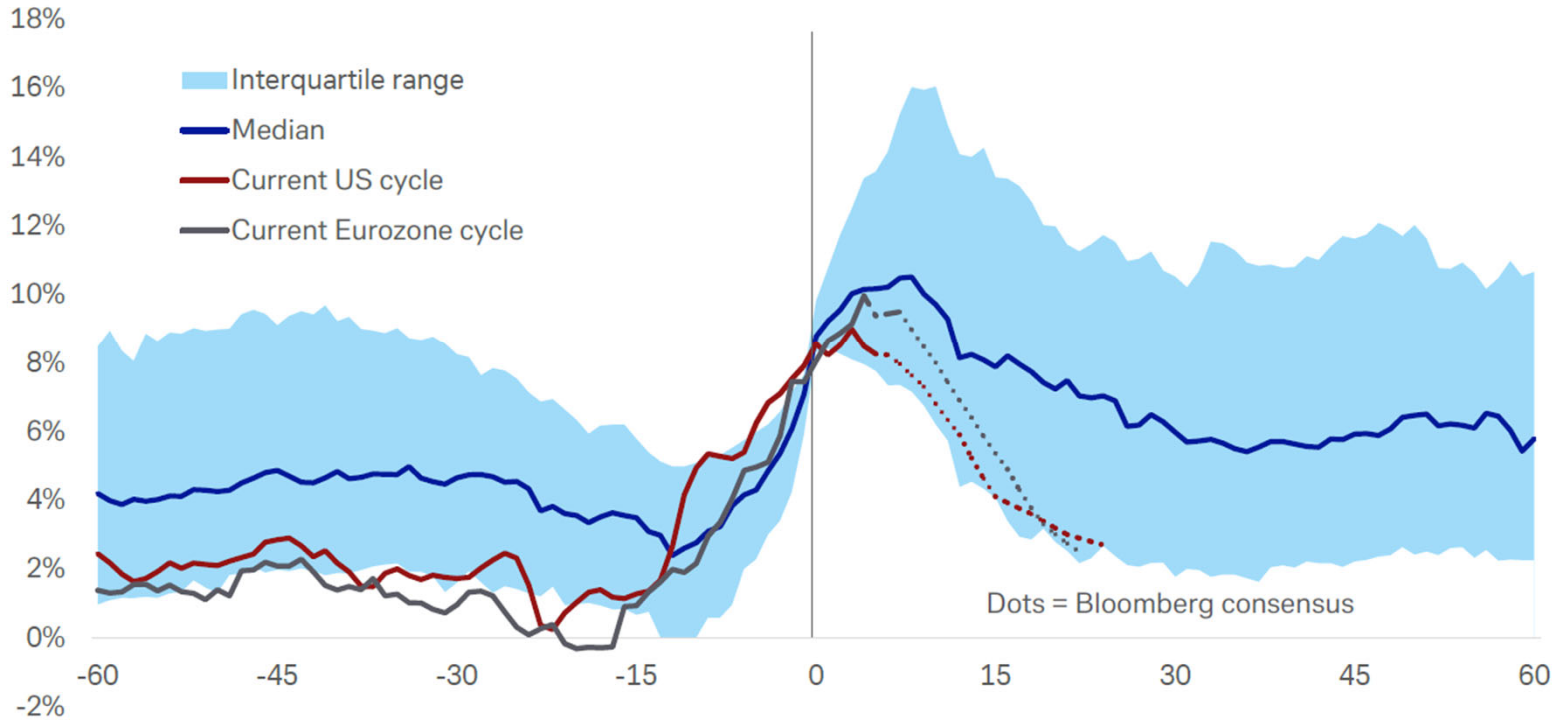


# Inflation



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Figure 2: All sample countries from 1920 (318 observations)



Source : GFD, Bloomberg Finance LP, Deutsche Bank



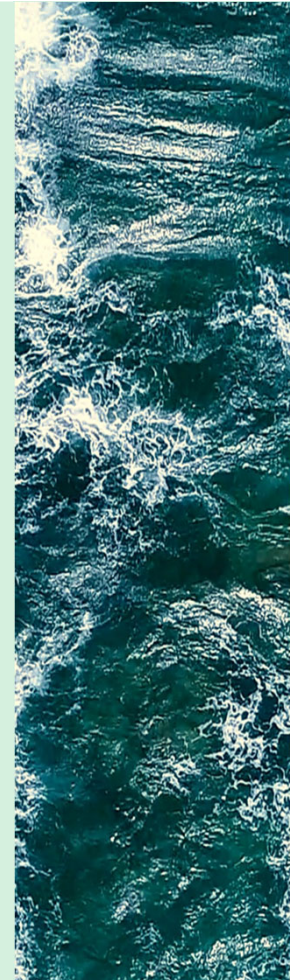
# UK and Italy



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*'We're off to Italy for a spot of political stability.'*

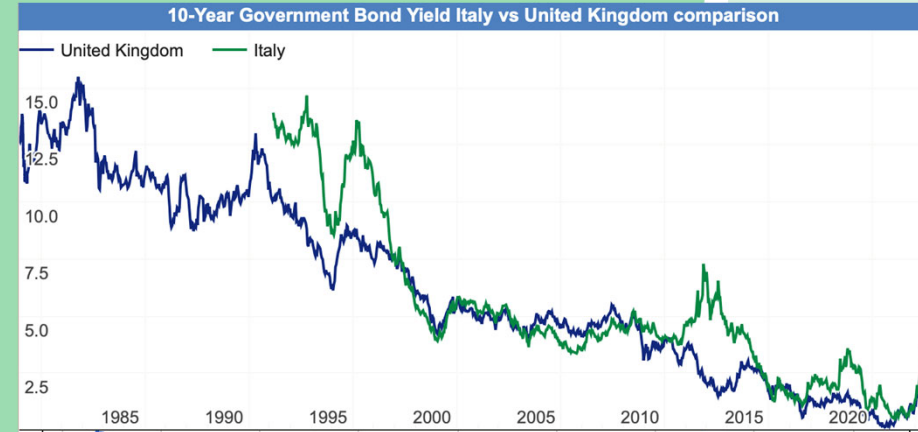
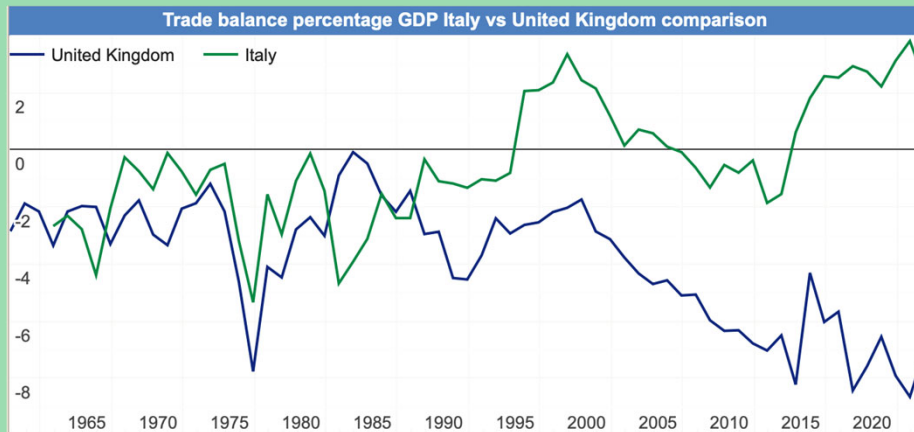
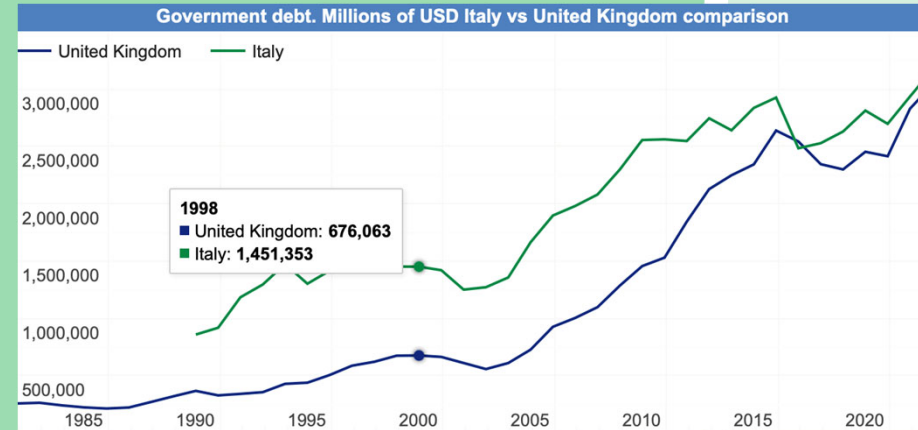
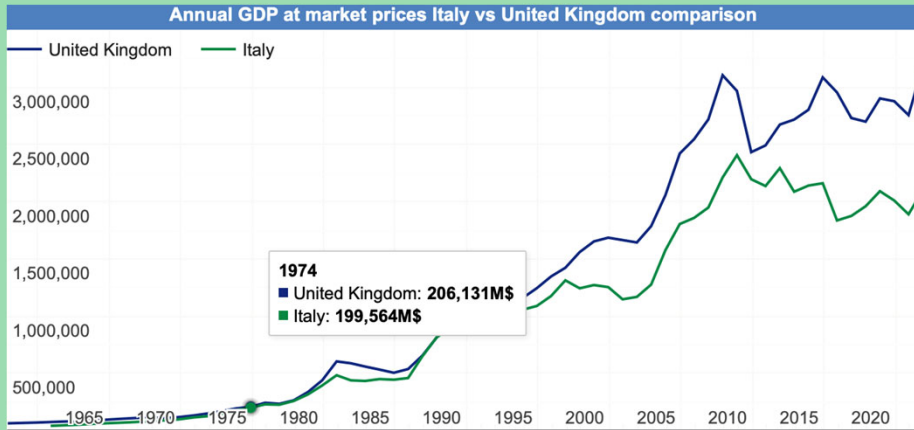




# UK and Italy



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# Climate Risk and reporting in the Channel Islands



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Thursday 30 June 2022 GUERNSEY PRESS guernseypress.com OPINION 11

## Climate risk should not just be a tick-box exercise

Climate change is not going away, despite having been displaced by more populist concerns, says Andy Sloan



All firms, following our environmental amendments to the Code of Corporate Governance in 2021, need to consider how to adapt their business models as a matter of urgency as international standards on environmental sustainability are quite likely to be promulgated over the course of 2022.

The Guernsey Press this week reported this message from William Mason's contribution to the GFSC's 2022 Annual Report. The report added that the GFSC had said its intent was to encourage firms not so advanced in their sustainability thinking to prepare for a future where green considerations and disclosures are likely to become the norm and part of international standards.

'What does promulgate mean?' was the immediate response I got when I lifted the same quote last month for a client presentation. Also this week saw the International Sustainability Institute Channel Islands publish a report on the relevance of these international standards on climate risk disclosures (CRDs) for those that like their acronyms to private wealth and private capital.

The elevator pitch? Climate risk doesn't discriminate between publicly listed and private assets, so go figure. If beneficial owners of private capital have no other information about climate risk, knowledge of the temperate alignment of their assets and portfolios will be vital for prudent stewardship.

It's been an interesting first half of 2022. Climate change, despite the GFSC and my best efforts, has been knocked off its number one spot of issue of populist concern. It's been displaced by more mundane things like war, having enough money to pay the bills, and global finance issues that from our fortuitous position atop the global economic pyramid we'd rather complementarily assumed had been consigned to history books. It was therefore almost with ironic timing that climate risk popped up in DWCI's actual review of 110m in surplus. Against being around £100m in deficit as it was the previous time it was valued in 2016. I'm sure DWCI must have been provided a fuller report than the version

published by the States because, other than as an exercise in box ticking, I couldn't understand the rationale of inclusion of climate risk accompanied by such limited discussion.

The analysis showed that climate risk was potentially the biggest risk faced by the scheme, other than a potential drop in equity indices of 25%. So why no full discussion? I'm guessing one could argue the report complied with the letter of the GFSC requirements, if indeed they apply to the scheme - I'm not aware they do, but I would argue without proper discussion not their spirit.

Inclusion would have been more meaningful if there'd been more granularity to the analysis, for instance the impact across asset classes and what it might mean for the scheme's investment strategy.

The issue is, though, analogous to the global situation - the hot issue with the States pension scheme wasn't the climate risk, it's the proposed cut to the States contributions to the scheme. By virtue of publication schedules, Richard Digard beat me to commenting on the proposals from PAR to reduce the employer contributions. PAR's premise being that, according to its own rules (not those pesky international ones), for assessing the value of the pension scheme, the scheme is now around £100m in surplus. Against being around £100m in deficit as it was the previous time it was valued in 2016. But that's a bit of a liberal interpretation of now. Now actually

means back in December 2016 when it was evaluated. Apparently, nothing in the intervening period has happened to question the soundness of basing decisions on information that is 18 months out of date. Double digit inflation, the highest rate in 40 years, seemingly not a good enough reason to pause.

I'm not getting into it today, but it seems to me a perplexing way to 'save' £5m of annual contributions. The States would save more money just by freezing pay and there'd be less risk to the scheme. I worry with the implications of the proposals, the triumph of short-term solutions over long term strategy. As I've said before, you can do the wrong thing for a long time before it bites you. And appreciating something isn't sustainable can take a long time to realise. Which is, perversely,

risk reporting because it's illustrative. The issue hasn't gone away because there's a war on, reporting has been on the cards for the finance sector for the last five years, so whatever else is going on in the investment world, the GFSC reminds us about it. For all the GFSC's faults there are one or two, apparently it does set its sights on the long view. It can do so by virtue of its devolved institutional arrangements, an enviable position (and in response to the investors (or) who shout out 'quit custodial upon custodes', the answer there as it's supposed to be PAR). There's no parallel mechanism or analogue in the institutional arrangements for oversight of domestic financial affairs. Indeed, we have a peculiar situation whereby PAR sets to pack and choose the manner of reports on the state of play of the pension scheme. Ordinary I'd expect it to be prescribed by a higher institutional arrangement, in the UK, governance rules would be in place setting such things in stone, guided by statute.

There are few constitutional quality checks and balances on States financial reporting or statements. The Guernsey Economic Policy Group have felt obliged on more than one occasion to publish a strong critique of the accounts. I said a few months back that the quiet cutting of the Fiscal Policy Panel last year was a scandal. It was put in place by myself for a good reason - to institutionalise expert scrutiny of the fiscal practice, performance and policy of the States. Sorry, to be 100% accurate and fair to Deputy Trott, the States put it in place as a result of a policy letter presented by Policy Council, signed by the then chief minister, Deputy Trott, following my advice and recommendation. I recently offered my services, only slightly tongue in cheek, to resurrect these arrangements but I didn't get a call. But I'm serious, putting this type of structure back in place is in my view an important and necessary move for the States. It would improve transparency and decision making. Institutionalising such advice would also help ensure finances are sustainable long term. It would also ensure that assessment of climate risk doesn't become a tick box exercise for the States.

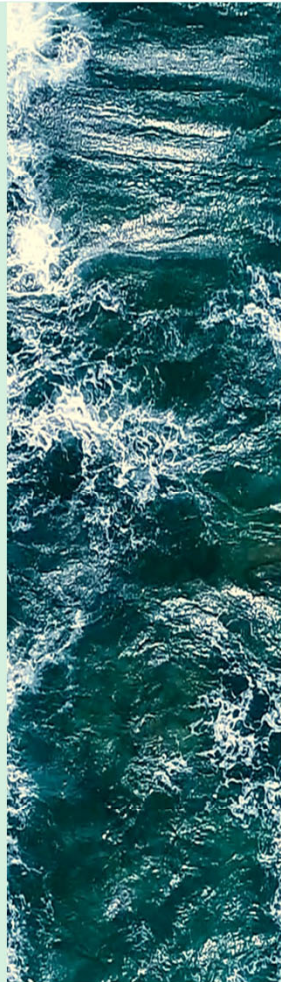
**'Climate risk is something that's got to be done meaningfully. If the risk factors are to mean anything, then based on the potential impact of climate risk alone, the States should have pause before reducing their [pension fund] contributions'**

"All firms, following our environmental amendments to the Code of Corporate Governance in 2021, need to consider how to adapt their business models as a matter of urgency as international standards on environmental sustainability are quite likely to be promulgated over the course of 2022."

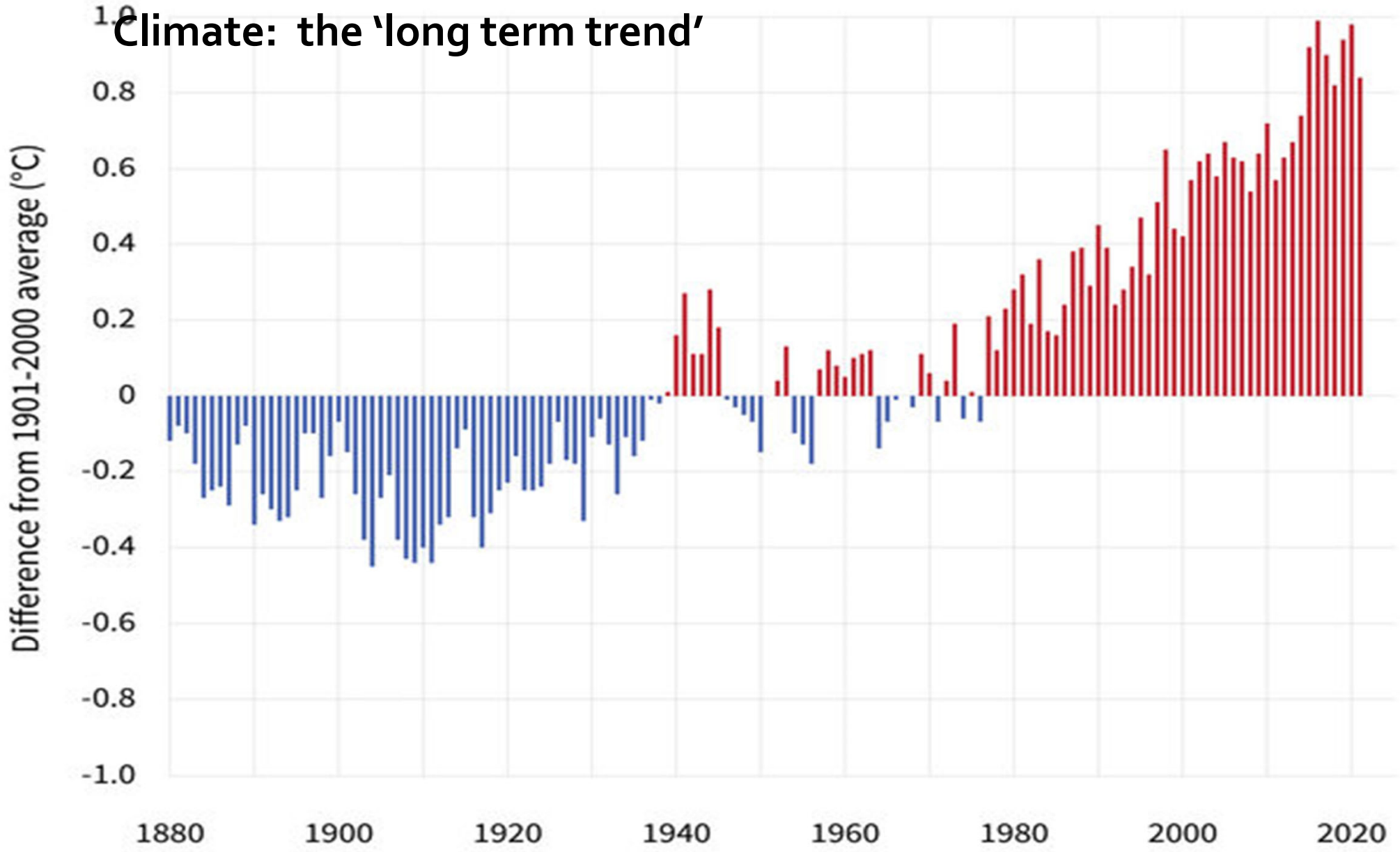
Director General's Statement, GFSC Annual Report, 2022



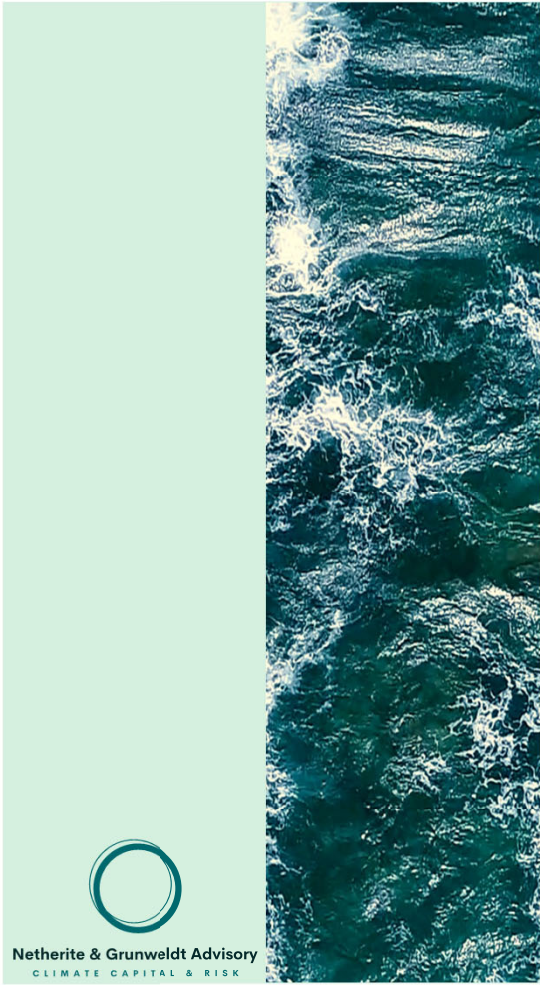
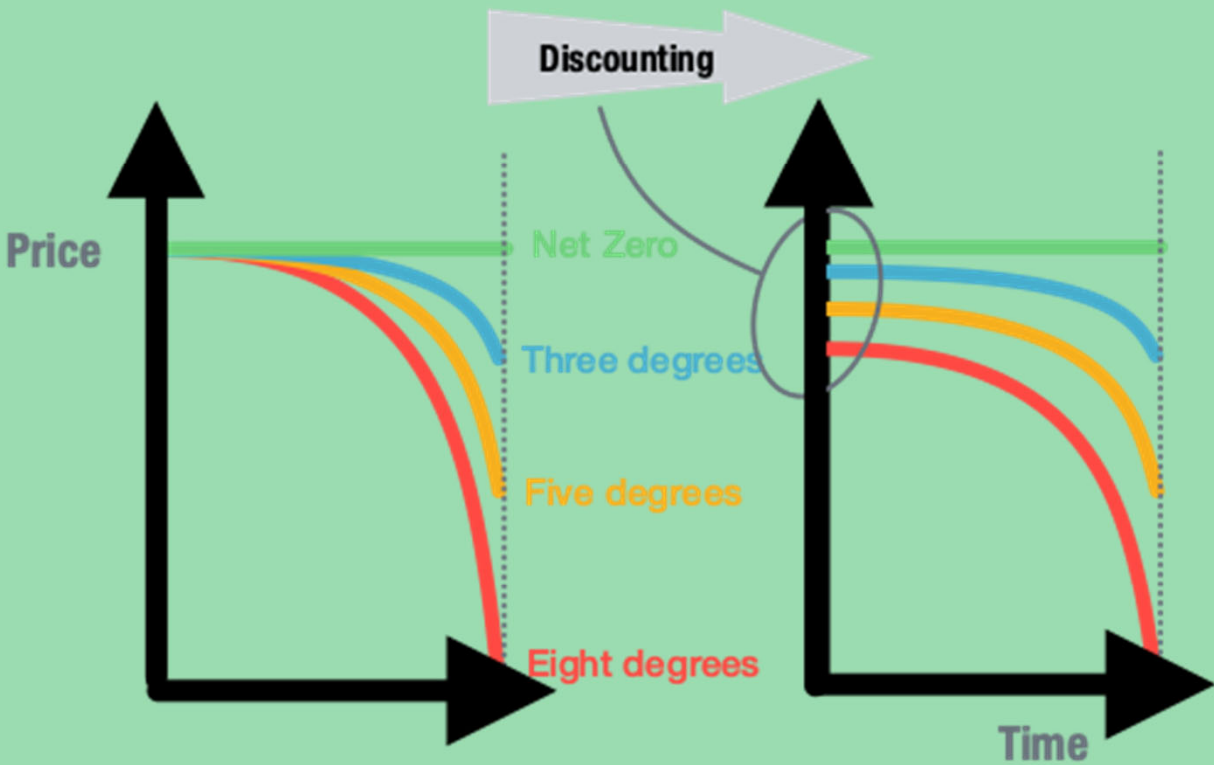
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# Climate: the 'long term trend'



# How it works, climate risk. A simplified model.





# Financed emissions and a simple metrics set

*‘Knowledge of the temperature alignment of assets and portfolios will be vital for prudent stewardship.’*

*International Sustainability  
Institute Channel Islands*



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# The future is now, climate risk reporting



## GOVERNANCE

Disclose the organization's governance around climate-related risks and opportunities.

The strategy or risk appetite statements of the Company is included in its annual statements and/or annual report.

The Board formally discharge any of its duties to Board sub-committee(s).



## STRATEGY

Disclose the actual and potential impacts of climate-related opportunities on the organization's businesses, strategy, at planning where such information is material.

All or some of the Company's underlying subsidiaries, investment vehicles or fund structures report on some form of climate-related risks and opportunities. Incorporate into investment analysis and decision making processes.

The Board envisage an impact due to, either direct or indirect, climate related risks opportunities on the organization's businesses, strategy, and financial planning, to potential reputational and/or regulatory risks.

The Company has now or at any stage in the past, gone through any form of sustainability screening and/or climate risk assessment, allowing the Company to increase its climate risk.



## RISK MANAGEMENT

Disclose how the organization identifies, assesses, and manages climate-related risks.

The Company has policies or procedures dealing with aspects of identifying and managing climate-related risks.

The Board are aware of who is ultimately accountable for ESG practices associated with operations of the Company.

Aspects relating to identifying, assessing, and/or managing climate-related risks into the Company's overall risk management framework.



## METRICS AND TARGETS

Disclose the metrics and targets used to assess and manage climate-related risks and opportunities where such information is material.

The Company's underlying subsidiaries, investment vehicles or fund structures report on some form of climate-related risks and opportunities. Incorporate into investment analysis and decision making processes.

The Company's underlying subsidiaries, investment vehicles or fund structures report on some form of climate-related risks and opportunities. Incorporate into investment analysis and decision making processes.

The Company's underlying subsidiaries, investment vehicles or fund structures report on how it manages climate-related risks, opportunities and/or performance against a defined set of targets.

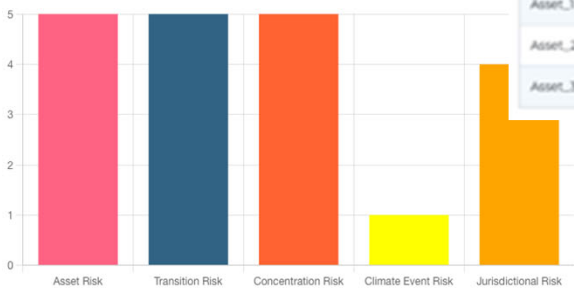
Category	Risk Rating	Description
Asset Risk	5	Very high levels of GHG, high risk of orphan assets
Transition Risk	5	Very high levels of GHG, high risk of orphan assets
Concentration Risk	5	Majority of assets with high emissions intensity or in sectors of high emissions intensity
Climate Event Risk	1	Asset location at very low risk of exposure to climate event
Jurisdictional Risk	4	Assets located in jurisdiction where little change in climate will boost GDP; Assets in jurisdiction where concerns for resilience exist
Regulatory risk		

## ASSET RISK SUMMARY

The portfolio contains assets with very high levels of GHG. There is a high risk of orphan assets. There are also concerns with GHG level of the portfolio and the risk of costly transition for certain assets. There are also concerns with the proportion of assets with high emissions intensity or in sectors of high emissions intensity. However, the assets are located in a jurisdiction at very low risk of exposure to climate event, and they are located in a reasonably resilient jurisdiction, one where climate change is likely to provide economic opportunity.

Further to the risk assessment at the portfolio level, risks are broken down by asset below.

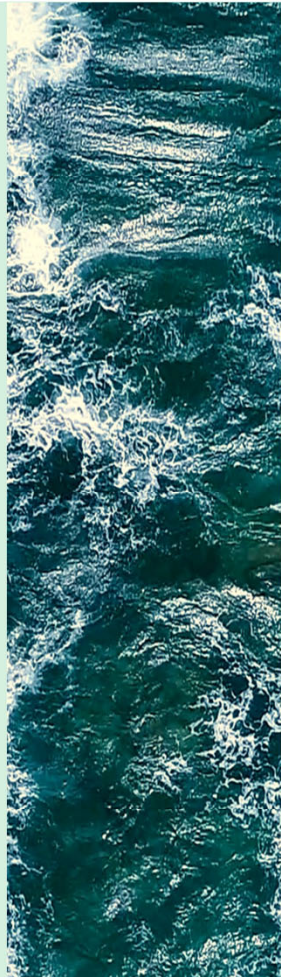
## RISKS



	Asset Risk	Transition Risk	Climate Event Risk	Jurisdiction Risk
Asset_1	5	5	1	4
Asset_2	5	5	1	4
Asset_3	5	5	1	4



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# Conclusions

So what lessons can be learnt from all that?



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# Conclusions

Economically we're going through a pivotal time.

Many of the macroeconomic variables: interest; inflation; etc are undergoing a structural break or change.

The global economy has suffered a series of exogenous shocks, but the many policy errors are endogenous.

Many of these shocks are transitory, as are their impacts, but many economic fundamentals need permanently rebalancing.

Through all this the transition to net zero may take a different path but climate change remains with us.

Firms will still have to adapt and plan accordingly.



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