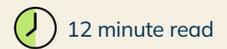


# UK nature legal opinion

## SECTOR BRIEFING – INSURANCE



12 minute read

This sector briefing aims to support **board directors in the insurance sector** with understanding their directors' duties and legal responsibilities regarding nature-related risks and impacts. This sector briefing focuses on non-life insurance activities, rather than life and health.

### Key takeaways:

- Nature-related risks are already financially material to the insurance sector. Global insured losses from natural catastrophes have exceeded USD 100 billion annually for six consecutive years, and losses are projected to continue rising as ecosystem degradation amplifies extreme weather and other hazards.
- Insurers are uniquely exposed to nature-related risks through their underwriting and investment portfolios. While insurers' direct operational impacts on nature are limited, their financial exposure arises from insuring and investing in sectors that both depend on and impact nature.
- Nature-related risks fall within existing financial risk categories. Physical, transition, legal and systemic risks linked to nature loss can affect claims frequency and severity, liability exposures, supply chains and asset values across multiple insurance lines.
- Under the Companies Act 2006, directors' duties of loyalty (s172) and care (s174) require them to assess and manage material nature-related risks; failure to do so could lead to legal, financial, and reputational consequences.
- Boards should embed nature considerations across governance, underwriting and investment decisions. Effective oversight includes integrating nature-related risk assessment into existing risk management frameworks.
- Beyond risk management, nature-positive opportunities are emerging. The transition to a nature-positive economy could unlock USD 10 trillion in annual business opportunities. Innovative insurance products, resilience financing and advisory services that support ecosystem protection and risk reduction, will be crucial in meeting global biodiversity goals.

“Insurers play a critical role in the economic infrastructure, facilitating activities that would not otherwise be viable. Board members need to be cognisant of this role and ask questions and establish policies that are aligned with protecting clients and supporting climate-related activities in their investment and underwriting.”

**Bryan Joseph, NED, Senior Independent Director and Risk Committee Chair, Sabre Insurance Group; NED, Lancashire Insurance Group; NED and Risk Committee Chair, CFC; Partner, Vario Partners LLP**



## Sector overview

Insurance is a key part of the UK economy. The London Market<sup>1</sup> has doubled in size over the last 10 years – it is currently worth USD 187 billion in Gross Written Premiums (GWP) (up 17% from 2022) and contributes GBP 61 billion to UK GDP (up 25% from 2020). The UK insurance sector is a global leader in underwriting complex risks, with UK insurers being active in every corner of the world.

Without insurance, many economic activities would not be possible. The insurance industry is therefore a critical enabler for economic growth. However, a number of sectors underwritten by insurers – agriculture, fishing and aquaculture, paper and forest products, natural resources, fossil fuel infrastructure – are highly dependent and impact on nature.

Global insured losses from natural catastrophes surpassed USD 100 billion in 2025 for the sixth consecutive year. When insured assets or activities suffer nature-related damage or losses, insurers may see a rise in the frequency and severity of claims, potentially increasing underwriting risks. Natural catastrophe insured losses are increasing at an annual rate of 7%, which would lead to average annual losses of USD 270 billion by 2035.

## Nature-related risks facing the insurance sector

Nature-related risks are the potential threats posed to an organisation that arise from its dependencies and impacts on nature. They do not constitute a new category of risk but fall within established financial risk classifications.

Most of the insurance sector's dependencies and impacts on nature are likely to arise indirectly through their financial portfolios rather than their direct operations due to being largely service-based. Insurers are therefore uniquely exposed to nature-related risks through the sectors, geographies and activities they underwrite and invest in.

Nature-related risks are broken down into physical, transition, legal and systemic risks.

- **Physical risks** result from the degradation of nature and a decline in ecosystems that underpin economic activity. For example, the Association of British Insurers (ABI) reported that insurers paid out GBP 1.2 billion in weather-related property claims in 2025. Property, vehicle, catastrophe (Cat) reinsurance and business interruption are all insurance lines that are exposed to extreme weather, which is amplified by habitat loss.
- **Transition risks** result when businesses are not aligned with regulation and policy, legal precedent, technology, or investor sentiment and consumer preferences aimed at restoring and/or reducing negative impacts on nature. For example, a rise in awareness surrounding the environmental and health impacts of plastic and PFAS pollution may result in increased claims. Directors & Officers and environmental liability insurance lines will be exposed to increased liability claims as nature awareness and regulations grow.
- **Legal risks** arise from mismanagement of physical or transition risks that may lead to legal cases related to nature loss. For example, some insurers have come under increased scrutiny for their role in underwriting high climate- and nature-impact projects (e.g., coal mines and oil pipelines).
- **Systemic risks** can affect the whole financial system by way of supply chain disruption, price volatility, collateral and asset depreciation, increases in defaults, and greater insured losses. Systemic risks can threaten risk pooling, diversification, and the financial stability of insurers and the broader industry.<sup>2</sup> A report published by ClimateWise in December 2025 outlines how insurers play a central role in advancing systemic risk governance due to their expertise in hazard assessment and risk management.

A table mapping nature-related risk categories to relevant insurance lines, with examples to help directors assess portfolio exposure, is included in Annex 1.

<sup>1</sup> The London Market is a distinct, separate part of the UK insurance and reinsurance industry centred in the City of London.

<sup>2</sup> UNEP FI, Rooted in Risk Framing nature-related assessments for insurers (June 2025) 51



“Nature-related physical and transition risks can lead to **underwriting risk** (stemming from inadequate pricing and reserving assumptions), **reinsurance risk** (such as challenges in diversification, rising reinsurance costs, and limited availability) as well as **business risk** (including stranded assets and loss of insurable assets) as well as **operational risks**. These factors **collectively impact insurers’ financial resilience**, including difficulties in adequately pricing nature-related risks, challenges through risk concentration, liquidity pressures, and potential solvency concerns.” (our emphasis)

UNEP Finance Initiative, Insuring a Resilient Nature-Positive Future

## Key findings of UK Nature Opinion

In March 2024, the Commonwealth Climate and Law Initiative commissioned and published a legal opinion authored by leading commercial barristers: ***Nature-related risks and directors’ duties under the law of England and Wales*** (UK Nature Opinion). The UK Nature Opinion does not create new law or advocate for change but clarifies existing legal duties under the *UK Companies Act 2006 (CA 2006)*.

Under CA 2006, directors have a:<sup>3</sup>

- **Duty of loyalty (section 172):** A duty to act in a way they consider, in good faith, would be most likely to promote the success of the company. Success is not defined in CA 2006 and does not necessarily equate to profits. Directors are required to have regard to several factors – including the environment (which includes nature) – when fulfilling this duty.
- **Duty of care (section 174):** A duty to exercise care, skill and diligence of a reasonably diligent person with the **general** knowledge, skill and experience expected of a director, and the **actual** knowledge, skill and experience of the particular director. This duty informs how directors act in the best interests of the company.

Directors’ duties are constantly evolving, as they are affected by the factual context in which a company operates, changes in scientific understanding of global nature decline, financial understanding of risks, and shifts in market and societal attitudes.

The **UK Nature Opinion confirms that nature-related risks form part of the risks directors must consider when discharging their duties under sections 172 and 174**. Directors could be in breach of their duties by failing to consider or act on relevant nature-related risks, potentially resulting in claims for damages.<sup>4</sup>

Other consequences could include termination of their position, adverse reputational impacts, and challenges to executive remuneration and “bad leaver” provisions. In addition, inadequate consideration of nature-related issues could expose the company to:

- Latent financial risks arising from unaddressed nature-related impacts and dependencies.
- The risk of shareholder and investor claims (including for deceit).
- Reputational risk.

<sup>3</sup> For a more detailed legal analysis of the duties outlined above, we refer you to the UK Nature Opinion, CCLI’s [board briefing](#) for Chapter Zero UK on the UK Nature Opinion and the [UK section](#) of the *Directors’ Duties Navigator: Climate Risk and Sustainability Disclosures*.

<sup>4</sup> It is worth noting that courts will generally avoid intervening in directors’ decisions unless there is clear evidence of bad faith, misconduct, or a breach of directors’ duties.



## What does the UK Nature Opinion mean for the insurance sector?

The UK Nature Opinion clarifies that, under CA 2006, directors must consider nature-related risks as part of their existing duties of loyalty and care. For insurance companies, this has particular significance. Nature-related risks are already financially material to many insurers (Annex 2 provides a visual representation of how nature-related risks can create financial risks for the insurance sector). In a survey conducted by the Sustainable Insurance Forum (SIF), almost 50% of insurers surveyed recognised nature risks as financially material to their underwriting business. Given that most of the sector's nature-related risks arise through underwriting portfolios rather than direct operations, the identification and assessment of nature-related risks must be embedded within core underwriting and risk-management activities; for insurers, this means systematically evaluating nature-related physical, transition and legal risks across lines of business, geographies and counterparties.

Directors should also consider nature-related risks across the insurer's entire balance sheet, including both underwriting and investment activities. Inconsistent approaches – for example, underwriting policies that restrict high nature-impact activities while investment portfolios remain exposed to the same sectors – could undermine claims that the board has properly assessed and managed nature-related risks under sections 172 and 174.

“Our analysis demonstrates that nature-related risks are no different to any other risks faced by company directors. Directors are required to give consideration to all relevant risks facing their businesses.”

Rebecca Stubbs KC, Maitland Chambers (co-author of the UK Nature Opinion)

There are several measures outlined in [guidance from the UNEP FI](#) that directors in the insurance sector can take to demonstrate compliance with their legal duties:

- **Governance structures:** Governance structures should ensure that nature-related risks receive board-level oversight, with regular discussions on emerging risks and their implications for customers, financial stability, and long-term insurability. [A February 2026 report by MSCI](#)

found that governance oversight exists amongst insurers, but accountability remains weak – 69% of insurers globally reported that climate considerations were not integrated into executive performance or incentive structures.

- **Integrating nature into existing frameworks:** Integrating nature into underwriting guidelines, risk appetite statements and ESG policies – rather than treating it as a siloed sustainability issue – will be an important evidential step in showing that relevant risks have been identified and assessed. It is important to understand the relationship between climate and nature.<sup>5</sup> It is important that risk modelling does not underestimate interlinking and systemic risks.
- **Identify priority actions:** High-risk sectors or biodiversity-sensitive locations should be subject to enhanced scrutiny.
- **Engage with clients:** Although insurers do not control their clients' operations, they can exert influence through underwriting decisions and renewal processes. Engagement strategies can be broadened to include nature. Before renewals, insurers can review clients against nature-related policies, set clear expectations (e.g., on operations in protected areas or high-impact sectors), and establish escalation or offboarding processes for persistent non-compliance.
- **Implement measures to reduce risk exposure:** Reliance solely on annual contract reviews and premium adjustments may be insufficient. These tools can manage short-term exposure but may overlook long-term threats to insurability and profitability. The UK Nature Opinion underscores that directors must consider longer-term success. This may require moving beyond risk transfer to risk reduction – encouraging biodiversity risk assessments, adoption of nature-based solutions etc., among insureds. Embedding such measures within policy terms can reduce insured losses and support resilience (e.g., regenerative agriculture practices leading to lower crop insurance risk).

In practical terms, the UK Nature Opinion **raises the governance bar for directors in the insurance sector**. Nature-related risks must be treated as financially relevant, systematically assessed within underwriting and investment activities, and actively managed through robust governance, documentation and engagement. Doing so is not only consistent with evolving market and regulatory expectations, but integral to complying with directors' existing legal duties and safeguarding the long-term success and resilience of the insurance business.

<sup>5</sup> For example, while actions to reduce GHG emissions can mitigate climate risks, they must be balanced against their potential impact on biodiversity (e.g., hydropower projects in biodiversity-sensitive locations).

## But it's not all about risk... there are also ripe opportunities

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The World Economic Forum (WEF) estimates an annual USD 10 trillion opportunity in the transition toward a nature-positive economy, spanning sectors such as waste management, alternative proteins, vertical farming, circular economy models, and sustainable supply chains. The insurance sector can help make emerging solutions and technologies insurable.

Positive engagement with clients and investment in projects can also reduce an insurers exposure to nature-related risks. For example, studies across 50 countries highlight that mangroves reduce flood risk to more than 15 million people and prevent over USD 65 billion in property damage each year. Mangrove destruction due to typhoons/ hurricanes/ cyclones can be insured by **parametric mangrove ecosystem insurance**, where payouts automatically activate on predefined parameters (e.g., wind intensity). For example, insurance is automatically activated under the San Crisanto Mangrove Insurance Programme in Mexico when a hurricane hits the protected area and the community receives up to USD 100,000 to repair damage caused.

Other innovative insurance products include sustainability-linked insurance and resilience bonds. Sustainability-linked insurance encourages investment in asset resilience. AXA, Marsh and Link Asset Management (Link) launched in Hong Kong in April 2025 an innovative **sustainability-linked insurance** instrument. Extreme weather events are becoming more frequent in Hong Kong, which drives up insured losses. Insurers often respond by raising premiums, tightening terms, or withdrawing capacity. By assessing climate risk and making targeted investments, Link, with the support of its insurance broker, achieved an 11.7% reduction in property insurance premiums (vs. the industry's around-3% average) and negotiated an additional 7.5% premium reduction tied to its loss ratio.

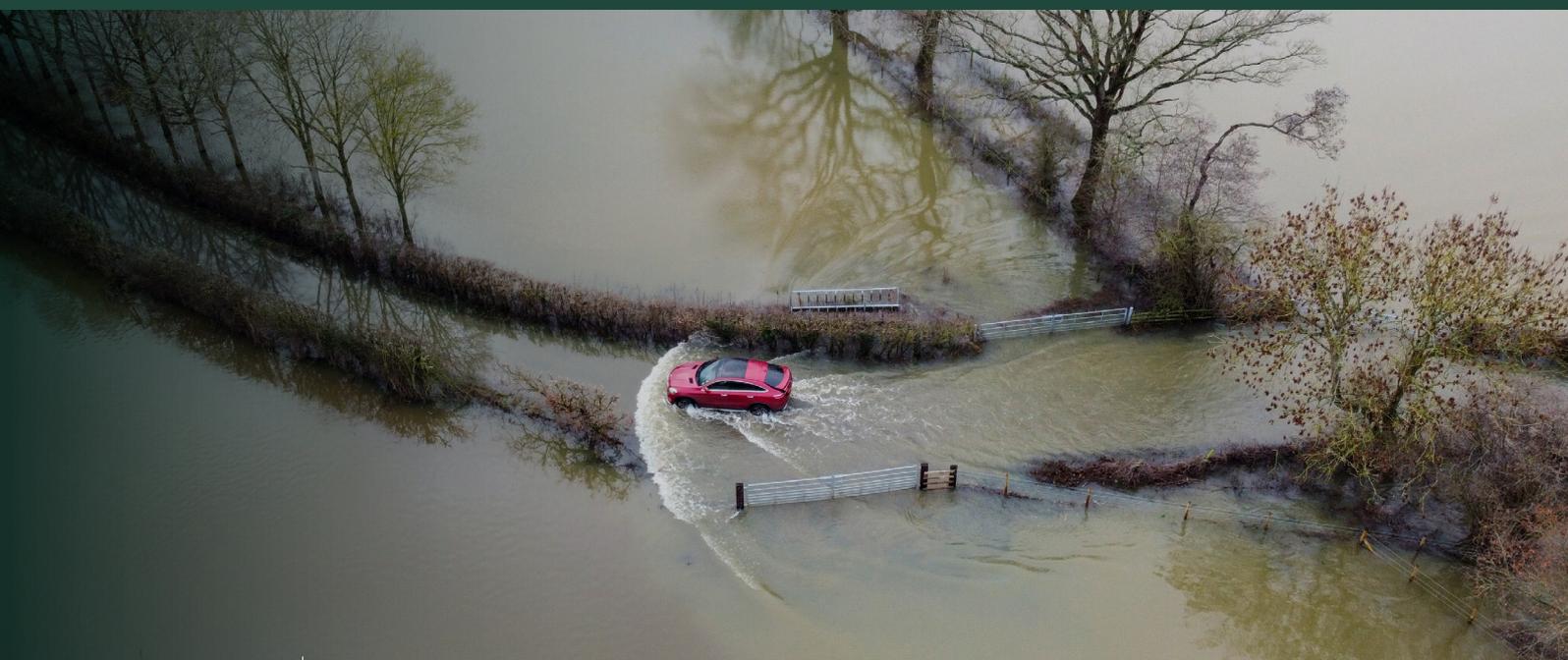
Resilience bonds mobilise capital for resilience. For example, the TOKYO Resilience Bond issued in October 2025 protects key infrastructure in the Tokyo metropolitan

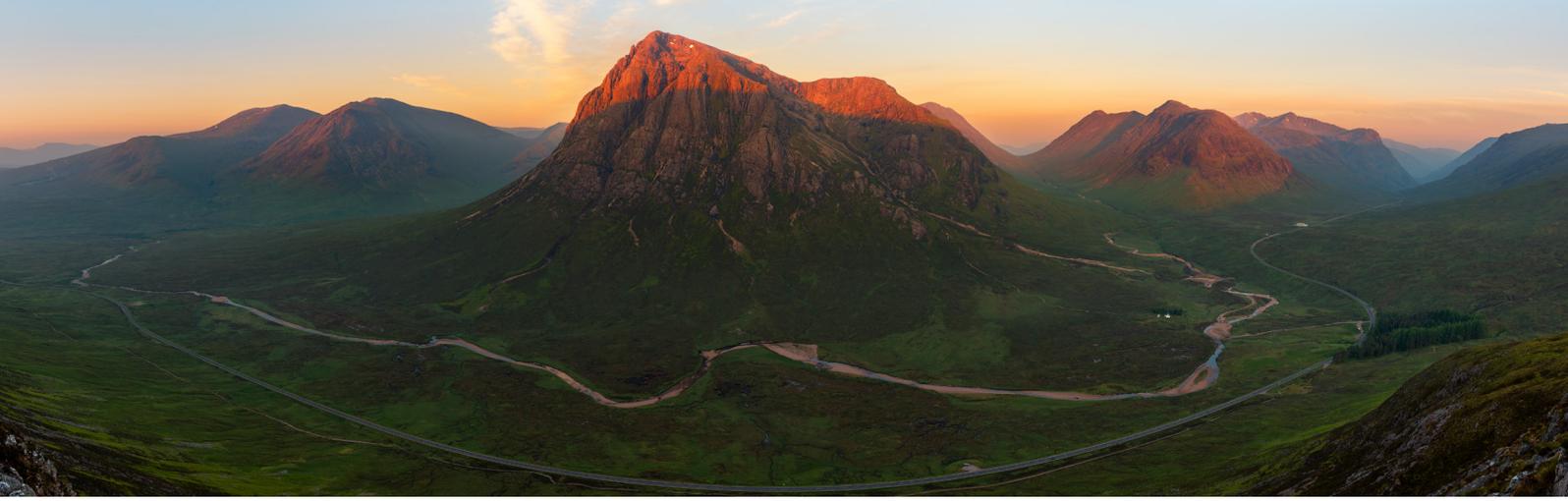
area of Japan against high tides, floods from heavy rain and storms. Proceeds from the bond will finance projects such as renovating port facilities to protect remote islands vulnerable to typhoons and coastal hazards. The bond is the first ever resilience bond to be certified under the Climate Bonds Standard. A core principle behind such innovative insurance measures is that prevention delivers greater value than post-disaster relief – in the UK each GBP 1 spent on flood risk management avoids GBP 8 in damages.

There is also an opportunity for insurers to expand advisory services to help clients strengthen climate preparedness and reduce nature-related risks. MSCI reported in February 2026 that 91% of insurers and reinsurers see opportunities in climate physical risk management and resilience advisory services, although this drops to 11% for nature-based resilience.

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## Annex 1

| Risk example  | Insurance lines exposed  | Illustrative insurance exposure   |
|---|--|---|
| <p><b>Nature-related physical risks:</b> Risks arising from the degradation of nature and consequential loss of ecosystem services on which an organisation depends. Physical risks can be acute (event-driven) and chronic (long-term). In the case of the insurance industry, these might be referred to as nature-related hazards or shocks. Nature-related hazards may influence the frequency and severity of an insured peril and/or lead to new insurable perils, resulting in financial and underwriting risks for insurers, which is a function of the physical hazard, exposure, and vulnerability in the underwriting portfolio.<sup>6</sup></p> |  |   |
| <p><b>Extreme weather amplified by habitat loss.</b> Insurers are already facing higher claims from floods, storms, and droughts, which are intensified by degraded ecosystems (e.g., loss of wetlands, soil erosion, deforestation). If these risks are not adequately modelled or priced, they can create underwriting financial risks for insurers. The Association of British Insurers (ABI) reported that insurers paid out <u>GBP 1.2 billion in weather-related property claims in 2025</u> – the annual highest record, with flooding exacerbated by land use change and reduced natural flood defences.</p>  | <p>Property, Motor/Vehicle, Aviation, Catastrophe (Cat) reinsurance, Business Interruption</p> | <p>Storm and flood damage to vehicles, buildings and aircraft. Higher claims frequency and severity where risks are inadequately modelled or priced; underwriting financial losses if nature-related hazards are not reflected in pricing</p> |
| <p><b>Unpredictable rainfall patterns.</b> February 2024 was the fourth wettest on record since 1871 for England, with <u>a rainfall total of 130mm</u>, contributing to <u>crop failures</u> and property damage. Insurers are also facing <u>increased subsidence-related claims</u> due to dry conditions. Water scarcity can further affect industrial operations – an MCSI case study published in March 2026 reports that one large energy company generates 92.2% of its revenue from assets exposed to high water scarcity risks.</p>   | <p>Property, Agricultural/Crop, Engineering, Business Interruption, Engineering</p>            | <p>Elevated crop and property claims; subsidence losses from drought; increased capital expenditure on infrastructure repair; supply chain disruption; factory shutdowns; delayed shipments</p>   |
| <p><b>Soil degradation and crop failure from pollinator decline.</b> Over <u>200,000 species act as pollinators</u>, on which 75% of global food crops depend. Pollinators can be impacted by climate change, pesticide use, and habitat loss. Soil degradation is reducing returns; around <u>30% of the world's soils</u> are moderately to highly degraded, and if current trends continue, more than 90% of the Earth's land areas will be substantially degraded by 2050.</p>  | <p>Agricultural/Crop, Trade Credit</p>   | <p>Increased crop insurance losses; counterparty default on agricultural loans</p>  |

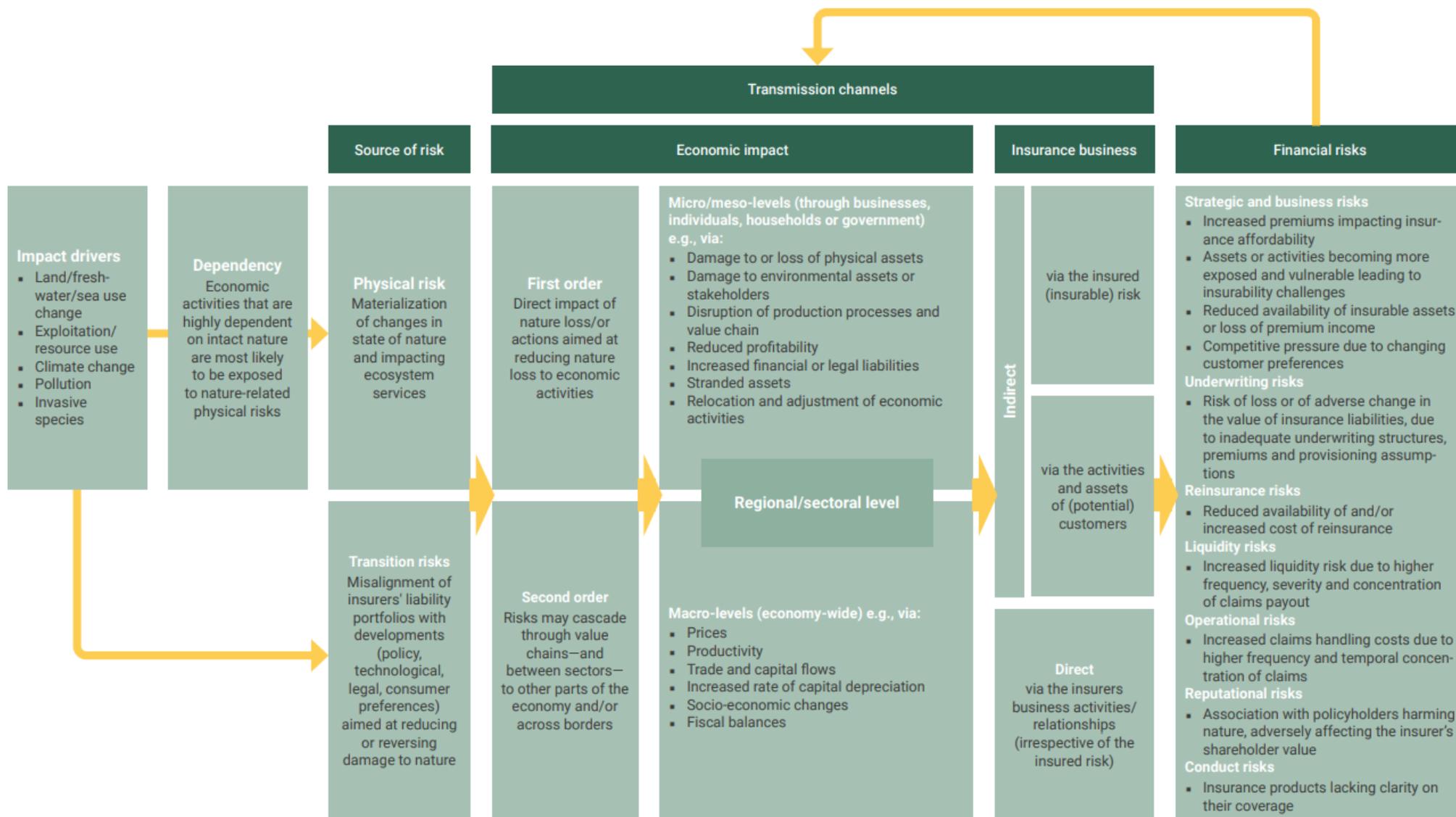
<sup>6</sup> UNEP FI, *Rooted in Risk Framing nature-related assessments for insurers* (June 2025) 53

## Annex 1 (continued)

| Risk example   | Insurance lines exposed   | Illustrative insurance exposure  |
|--|---|--|
| <p><b>Nature-related transition risks:</b> Risks arising from a misalignment of economic actors with actions aimed at protecting, restoring, and/or reducing negative impacts on nature e.g., regulatory changes, shifts in consumer preferences, and evolving market expectations. Transition risks can influence the frequency and severity of an insured peril (e.g., reporting errors, regulatory non-compliance, breaches of fiduciary duty) or give rise to a new insurable peril, resulting in financial and underwriting risks for insurers.<sup>7</sup></p>   |   |  |
| <p><b>Alignment and implementation of the Global Biodiversity Framework (GBF).</b> Insurance plays a key role in closing the USD 700 billion annual finance gap. The GBF and its targets will be translated into national-level policies. Insurers need to understand the specific nature-related challenges in the countries they operate and ensure their strategies align with global biodiversity goals and national frameworks.</p>   | <p>All lines (strategic/ portfolio-level risk), Business Interruption, Engineering, Liability, Credit, Surety</p> | <p>Shift in risk profiles of insured clients; increased claims as policyholders face regulatory non-compliance or business process changes, missed opportunity to develop new products (e.g., parametric nature insurance)</p> |
| <p><b>Rising investor expectations for nature-risk management and disclosures.</b> 98% of investors surveyed by the TNFD are concerned about the impact of nature loss on financial markets (56% very, 42% somewhat).</p>  | <p>Directors &amp; Officers (D&amp;O), Errors &amp; Omissions (E&amp;O)</p>                                       | <p>Claims against directors for inadequate disclosure or misrepresentation to investors</p>  |
| <p><b>Portfolio exposure to companies affected by deforestation regulation.</b> Insurers with investment portfolios in agriculture, forestry, or food sectors face transition risks as deforestation-free supply chain laws tighten. For example, the <a href="#">EU Deforestation Regulation</a> and proposed “forest risk commodities” <a href="#">UK legislation</a>.</p>   | <p>Trade Credit, Surety, Political Risk, D&amp;O</p>  | <p>Stranded asset risk in investment portfolios; increased claims from insured businesses whose models are disrupted by regulation</p>   |
| <p><b>Increased liability claims as nature awareness and regulation grows.</b> D&amp;O and environmental pollution liability policies may face higher claims as awareness about ecosystem health grows or following a tightening policy environment. A rise in awareness surrounding the environmental and health impacts of <a href="#">plastic</a> and <a href="#">PFAS pollution</a> may also result in increased claims.</p>   | <p>D&amp;O, Environmental Liability, E&amp;O</p>  | <p>Higher claims frequency on liability lines; potential for systemic claims across portfolios if a regulatory trigger crystallises</p>  |
| <p><b>Data limitations in assessing nature-related underwriting risks.</b> Data may be limited currently for company activity by location and upstream and downstream. As companies start to assess and make TNFD-aligned disclosures and other relevant frameworks, it can be expected that a greater amount of better-quality data and analytics will become available over time.</p>  | <p>All lines (underwriting risk)</p>  | <p>Risk of mispricing or under-reserving where nature-related exposures are not adequately captured in models</p>  |
| <p><b>Nature-related legal risks:</b> Risks that arise from mismanagement of physical or transition risks that may lead to legal cases related to nature loss</p>  |   |  |
| <p><b>Tighter regulatory expectations on environmental risk management.</b> The Prudential Regulator Authority’s updated <a href="#">supervisory statement (SS5/25)</a> requires insurers to demonstrate robust identification, assessment and management of climate-related risks.<sup>8</sup> Climate risks are a subset of nature risks. Failure to meet these expectations could expose insurers to supervisory intervention and findings of inadequate risk governance.</p>   | <p>D&amp;O, E&amp;O, PI, and the insurance company itself)</p>  | <p>Regulatory enforcement action; personal liability for directors where governance of nature-related risks is found to be inadequate</p>  |
| <p><b>Liability exposure from underwriting environmentally harmful activities.</b> Lloyd’s of London and AXA have been <a href="#">publicly targeted</a> by climate- and nature campaigners for their role in underwriting high climate- and nature-impact projects (e.g., coal mines and oil pipelines). The global campaign of NGOs – <a href="#">Insure Our Future</a> – is another example of growing stakeholder scrutiny that reinforces legal and reputational risk, emphasising growing pressure on insurers over underwriting high nature-impact sectors.</p> | <p>General Liability, Environmental Liability, D&amp;O, and the insurance company itself</p>                      | <p>Defence costs; reputational damage; potential claims or regulatory action linked to underwriting of nature-harmful activities</p>   |

<sup>7</sup> Ibid. 56

<sup>8</sup> For further information on the SS5/25 and associated policy statement (PS25/25) and its implications for boards, see [Hogan Lovells’ article](#).



Reproduced from: UNEP FI, Rooted in Risk: Framing nature-related assessments for insurers (June 2025), Figure 15, p.59