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# Risk Information Disclosure on Sustainability and Climate Change in Japan

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#### Introduction

In this conference, we would like to show how Japanese companies effectuate the risk information disclosure on climate change. In Japan, since 2005, risk information disclosure such as "risks on business etc." (事業等のリスク) has become obligatory in annual report by the order of the cabinet and we have met two majors reforms in 2019 and in 2023. The reform in 2023 is to mention the measures for sustainability in risk information disclosure besides with "risk on business etc." In this presentation we focus on 3 major insurance companies and Toyota corporation based on each company's annual report through WEB site.

## 1. Changes in Sustainability Disclosures of Japan's Three Major Insurance Companies

## (1) Tokio Marine & Nichido (東京海上日動)

#### 2023 Disclosures

- Key Focus Areas: "Climate Change Initiatives," "Disaster Resilience," "Healthy and Fulfilling Lives," and "Diversity & Inclusion (D&I)."
- Governance: Established a Sustainability Committee, reporting to the Board of Directors.
- Risk Management: Aligned with the Task Force on Climate-related Financial Disclosures (TCFD), evaluating physical and transition risks.
- Metrics & Targets: Net zero greenhouse gas (GHG) emissions by 2050, 60% reduction by 2030.

#### Changes in 2024 Disclosures

- Expanded focus on nature and biodiversity: Adopted the Taskforce on Nature-related Financial Disclosures (TNFD) in addition to TCFD, enhancing disclosures on natural capital and biodiversity.
- Stakeholder engagement: By 2030, reviewing transactions with 60 major high-emission companies.
- New disaster prevention business: Established "Tokio Marine Resilience" to enhance disaster preparedness services.

#### (2) Sompo Japan (損保ジャパン)

#### 2023 Disclosures

• Strategy: Implemented "SOMPO Climate Action," focusing on "Adaptation," "Mitigation," and

"Social Transformation."

- Risk Management: Identified physical, transition, and liability risks related to climate change.
- Scenario Analysis: Simulated the impact of climate change on typhoons and floods.
- GHG Reduction Targets: 60% reduction by 2030, net zero by 2050.

## Changes in 2024 Disclosures

- Enhanced risk assessment: Introduced a climate risk map for long-term impact visualization.
- GHG emission management: Used "Implied Temperature Rise (ITR)" to quantify investment portfolio alignment with net-zero goals.
- New insurance products: Launched "Transition Insurance" to support companies in decarbonization.
- (3) Mitsui Sumitomo Marine Insurance (三井住友海上)

#### 2023 Disclosures

- Sustainability Strategy: Based on three pillars: "Environment," "Society," and "Governance."
- Climate Action: Expanded investments in renewable energy and strengthened climate risk assessments.
- GHG Reduction: 50% reduction by 2030, net zero by 2050.

## Changes in 2024 Disclosures

- Sustainable Finance: Strengthened green financing through insurance underwriting.
- Disaster Prevention: Developed corporate risk assessment tools to enhance natural disaster preparedness.

# 2. Toyota's Sustainability Disclosure Changes (トヨタ自動車)

# (1) 2023 Disclosures

- Climate Change Risks: Identified physical risks (typhoons, floods, wildfires) and transition risks (stricter regulations, market shifts due to new entrants).
- Business Continuity Plan (BCP): Strengthened measures to mitigate impacts from extreme weather events.
- Transition to a Low-Carbon Economy: Continued research and development of EVs, hybrid vehicles (HEVs), biofuels, and hydrogen fuel technologies.
- Risk Management: Established strategies to comply with climate regulations and technological innovations, overseen by the Board of Directors.
- Target: Achieve carbon neutrality by 2050.

# (2) Changes in 2024 Disclosures

• Newly Identified Risks: Added risks from "heatwaves impacting health" and "droughts/water shortages affecting production."

- Enhanced Risk Management: Adopted Toyota Global Risk Management Standard (TGRS) for improved risk assessment.
- Energy Policy Adaptation: Continued multi-pathway electrification strategy (HEV, PHEV, BEV, FCEV) to meet global policy variations.
- Carbon Neutrality by 2050: Strengthened carbon reduction measures in production, achieving 100% renewable energy use in European factories.
- Scenario Analysis: Adopted IEA's "Below 1.5° C Scenario" to assess risks and opportunities in a lowcarbon society.

Climate Change Response (Climate-related financial information disclosure based on TCFD)

- Toyota has declared that it will take on the challenge of addressing climate change on a global scale to achieve carbon neutrality by 2050.
- Toyota is taking into account the different energy conditions in each region and is implementing a variety of measures to respond to the conditions in each country and region around the world.
- In April 2019, Toyota will endorse and sign the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).
- (1) Governance

a. Oversight of Climate-related Risks and Opportunities by the Board of Directors

- The Board of Directors is the forum for discussion and oversight of strategies/major action plans/business plans, and is the forum where important climate-related issues are brought up for discussion.
- The Board also monitors progress on qualitative and quantitative targets to address climate-related issues. Monitoring will include the identification of potential climate-related issues, such as product-related risks and opportunities (e.g., fuel efficiency and emissions regulations), risks and opportunities related to the development of low-carbon technologies, and their potential impact on the company's business.
- This governance mechanism is also used in the formulation of long-term strategies, including the "Toyota Environmental Challenge 2050," and in the formulation and review of medium- to long-term targets and action plans.
- Examples of decisions made by the Board of Directors in 2023 include the following
- In order to realize a carbon-neutral society, we obtained approval for investment to secure the necessary amount of batteries for electric vehicles for 2030.
- The Board of Directors has approved an investment in the development of a powertrain as a multipathway. In addition, we have obtained approval for research and development of powertrains (evolution of combustion technology) as a multi-pathway.

b. Management's role in assessing and managing climate-related risks and opportunities

- The final decision-making and oversight body for addressing climate-related issues is the Board of Directors.
- In addition, the following bodies are primarily responsible for assessing and managing climaterelated risks and opportunities.

•The fundamental idea behind the "Multi-pathway Strategy" is to provide a "future of energy" and diverse mobility that meets the expectations of the community and customers.

• The basic premise is that from the perspective of the global environment and sustainability, we need to move away from fossil fuels.

•In the medium to long term, the spread of renewable energy sources is expected to continue, and "electricity" and "water" will become the dominant energy sources supporting society. On the other hand, in the short term, it is necessary to face the realities of each region of the world

•In the short term, however, it is important to face the realities of each region of the world and proceed with change in a practical manner while ensuring energy security. That is why

•We will contribute to carbon neutrality with mobility options that are compatible with a variety of energy sources, such as electricity from renewable energy sources, hydrogen based on that electricity, synthetic fuels, and biofuels. We will continue to contribute to carbon neutrality.

•In order to reduce CO2 emissions in a realistic manner, it is important to steadily reduce CO2 emissions while utilizing existing infrastructure and assets.

• The multi-pathway strategy, which offers a variety of mobility options, is a strategy that can respond to uncertainty with one of the options no matter what society brings. Because of the variety of industries involved, we must be proactive in building partnerships to ensure that electricity and hydrogen are used to protect the environment.

Scenario Analysis Overview

In April 2019, Toyota endorsed and signed the TCFD recommendations and joined the TCFD Consortium, a group of domestic companies and financial institutions working together to promote the initiative.

In 2022, a project consisting of related organizations will be launched to conduct scenario analysis using two temperature zones  $(1.5^{\circ} \text{ C and } 4^{\circ} \text{ C})$  in reference to the TCFD framework, and to examine the resilience of strategies through scenario analysis.

The scenarios are as follows.

1.5° C scenario (IEA\*1 NZE\*2, APS\*3 scenario, etc.)

4° C scenario (SSP5-8.5)

1 International Energy Agency

2 Net Zero Emissions by 2050 Scenario: A decarbonization scenario published by the International Energy Agency (IEA).

3 Announced Pledges Scenario: One of the scenarios published by the IEA

#### Conclusion

Risk information disclosure had been criticized as simple plain sentences on the category of risks since 2005. By the reform in 2019 as with the arrival of Covid-19, Japanese corporations began to add schemas and figures in risk information. And also they started to add treatments to cope with risks. Then by the reform in 2023, they are obliged to mention sustainability matters as climate changes besides with "risk on business etc". Thus risk information disclosure mentioning climate change is developing in Japan.