ClimateWise Principles

The Fourth Independent Review 2011

www.climatewise.org.uk

ClimateWise
REDUCING THE RISK FOR TOMORROW

Authored by
pwc

An initiative facilitated by
UNIVERSITY OF CAMBRIDGE
PROGRAMME FOR SUSTAINABILITY LEADERSHIP

Contents

Authored by:

CLARENCE HOUSE

I am under no illusion as to how challenging the events of the last year have been for the global insurance industry. Economic turmoil has stifled investment returns and there has been a seemingly endless onslaught of both manmade and natural catastrophes, from the Gulf of Mexico oil spill to the earthquakes in Chile, New Zealand and Japan. I know that the operational challenges these events have posed are immense. That is why I am so encouraged that ClimateWise members around the world continue to show foresight and determination in challenging themselves to deal with the biggest risk multiplier of all, climate change. Not only are we already feeling its impacts, but we know that we must act today if we are to affect its trajectory in any meaningful way.

What has particularly struck me about these tragedies, though, is not the immediate damage people and businesses have suffered, heart-breaking though that has been. Rather, these events have demonstrated how dependent we are on a healthy, thriving natural environment that can both supply us with vital resources and absorb the impact of the worst extremes. To see the point one only has to think of the lasting devastation suffered by coastal fishing communities when ecosystems are destroyed by oil spills or the plight of inland communities suddenly inundated by tsunamis that would once have been absorbed by mangroves or coral reefs. But, of course, we continue systematically to undervalue Nature's services and to erode natural capital, thus creating a world that is both more risky and far less resilient. Creating a permanent, sustainable natural environment – in harmony with a durable, lasting built environment – is our only choice if we are to avoid seriously short-changing our grandchildren.

The scale of these issues can be utterly overwhelming, so when I met chief executives of ClimateWise member companies earlier this year, I was reassured to learn that they have begun to act on exactly this issue – researching, promoting and even investing in ecosystems like wetlands and forests as key measures to improve the resilience of vulnerable communities against natural catastrophes. I was also fascinated to hear that ClimateWise members are now thinking about how they can encourage their more carbon intensive corporate clients to develop much more sustainable business practices, in recognition of the huge global risks to which they are otherwise contributing.

But what heartened me the most was when I heard that ClimateWise is acting as a "lightning rod" for industry leaders, helping them keep the challenge of unsustainable climate risk on the Board's priority list, supporting collaborative learning where deeper understanding of solutions is needed and galvanizing their collective influence over decision-makers. The world needs much more of this action because all the signs are that there is simply no time to waste – despite what the sceptics may currently be saying.

Charles

Chairman's Foreword

For the past 300 years, insurance markets have helped people chart a more resilient course through a world so often defined by extremes; without the financial safety net of insurance, individuals, businesses, and even governments, would not have been able to bear the risks inherent in the trade and development that has shaped humanity's progress. Yet if the past 40 years that I have spent in the insurance industry have shown me anything, it is that the world is becoming a more extreme place, with climate change up there as the number one risk.

Our frankly cautious response to climate change to date is totally disproportionate to the scale of the threats we face. A 5°C rise in global average temperatures is perfectly plausible over the next century if our emissions escalate on current projections. The planet hasn't been that warm for 30 million years. For me, this puts into context the vulnerability of all of the complex systems we have come to rely on – financial hubs in coastal cities, global agricultural belts, international supply chains – in a timeframe that is but a snapshot in comparison.

So what does this mean for the insurance industry itself, an industry that historically has been so proactive in encouraging society to keep risks manageable, whether it be installing sprinklers in buildings to reduce fire risk or introducing seat belts to lessen the impact of road accidents? This is a question that I prioritised when I was Chief Executive of Swiss Re from 2003 to 2005 and I know that a number of colleagues in the industry have given it similar attention.

Insurers everywhere should be using our industry's core expertise to better understand and communicate the risks climate change poses to our economic and social systems and to forge and promote solutions to bring those risks down to an acceptable level. This independent review demonstrates that insurers across the world are indeed actively playing this role in a variety of ways.

But in my experience, the everyday operational challenges the industry faces mean that it will always be difficult for Boards to give this long-term, creeping threat the scale of response it requires today without new ways of thinking and additional support. That is why I am so excited to have been appointed as the Chairman of ClimateWise. Under Andrew Torrance's guidance ClimateWise has in a few short years expanded its membership beyond its UK base and advanced its aspiration to become a leadership group for collaborative learning and action on climate change within the insurance sector. Our aim now is to build on that progress.

The ClimateWise Collaborations developed by members to help them tackle issues beyond the influence sphere of any one organisation are a valuable tool already at our disposal. It is a natural fit for our industry to be contributing to efforts to adapt society to the inevitable change locked into the system. Nevertheless, we must not overlook the fact that unless we control the limits of that change – through the necessary processes of increasing energy efficiency, decarbonising energy generation and promoting the earth's natural carbon sinks – we will soon find we cannot adapt our way out of everything.

Realising this vision requires strong partnerships with key industry players and policy-makers alike and I look forward to ClimateWise playing its part in driving this change.

John Coomber
Chairman, Climatewise
Member of the Board, Swiss Re

Introduction

The insurance sector faced considerable challenges during the Fourth ClimateWise reporting period (June 2010 to June 2011). External pressure from regulatory change, natural catastrophes, continued economic difficulties and sovereign debt crises have affected all aspects of activity, from underwriting, through claims, asset management and investment performance to operations, finance and compliance functions.

The Centre for the Study of Financial Innovation (CSFI) published its 2011 Insurance Banana Skins Report(1) during the period. This report surveys 'a global sample of nearly 500 practitioners and close observers' of the sector. It identified that the most pressing challenge the sector faces is the burden of regulation. However, among the challenges identified, natural catastrophes featured as the fifth most urgent (up from 22nd place in 2009), a reaction to the earthquakes in New Zealand and Japan. Climate Change was ranked down at the 20th most pressing issue, up from 28th in 2009, but still a long way off the priority list and a far cry from the 4th place in the 2007 survey.

Also during the reporting period, Munich Re's Topics Geo 2010(2) analysis identified that of the 950 natural catastrophes recorded in 2010, 90% were weather-related. This made 2010 the year with the second highest number of loss-related natural catastrophes since 1980 (2007 being the highest) and exceeds the annual average for the past 10 years (785 events per year). Overall losses amounted to $130bn, of which about $37bn was insured. According to Munich Re, this puts 2010 among the six most loss-intensive years for insurers since 1980.

Therefore, while weather related losses continue to impact claims, climate risk as an issue is still not seen as pressing as the more immediate regulatory pressures and economic conditions. That is not to say the sector is taking no action. This year's ClimateWise members continue to demonstrate recognition of the important role insurers and the insurance sector has in developing and encouraging the transition to a climate resilient and adequately adapted lower carbon global society.

The ClimateWise Managing Committee appointed PwC as the independent reviewer for this fourth review. The ClimateWise Principles are designed to enable members to work individually and collectively to reduce the economy's and society's long-term risk from climate change, within the confines of a competitive market. The six principles cover all aspects of the diverse insurance sector's response to climate risk and require the members to:

1. Lead in risk analysis
2. Inform public policy-making
3. Support climate awareness amongst customers
4. Incorporate climate change into investment strategies
5. Reduce the environmental impact of their own business
6. Report and be accountable.

ClimateWise members have committed to publish a statement as part of annual reporting, detailing the actions they have taken to comply with the ClimateWise Principles. This annual statement is central to the continuing credibility of the ClimateWise initiative. It serves to hold ClimateWise members to account as well as acting as a show-case for its members to demonstrate their own progress and provide leadership for the wider insurance industry. These reports form the first stage in the analysis of compliance against the principles. A second stage of analysis takes place in the form of a telephone interview. This interview is designed to more fully understand the level of compliance against the Principles and sub-principles and gain further evidence of progress if required.

This year, the review considers the submissions from 26 members, the submission from the Lloyds Market being consolidated into one report for Lloyd's of London. It also incorporates first time submissions from two new members; Willis and If P&C.

Executive Summary

Despite the considerable challenges that ClimateWise members have faced, from a variety of external economic, regulatory and natural catastrophe pressures, members continue to demonstrate their commitment to the ClimateWise initiative, as evidenced by the reporting of activity across the principles in 2011.

Overall, ClimateWise members have maintained the high levels of compliance seen in the 2010 Independent Review, with average compliance across all the principles standing at 88% (2010: 88%). This performance builds on the previous three years of continued growth in compliance, from 65% in 2008. Posting further growth in compliance in this reporting period was always going to be difficult against the backdrop of the external market challenges. Therefore maintaining compliance at just under 90% can be seen as something of a strong performance.

It is also key to point out that members of ClimateWise, in signing up to the principles and reporting against them, are indicative of a section of the industry that is more advanced in addressing climate risk. In September 2011, Ceres released a report entitled 'Climate Risk Disclosure: Evaluating Insurer Responses to the NAIC Climate Disclosure Survey'(3). While clearly focussed on the North American market, the report concluded "while the NAIC survey revealed a broad consensus among insurers that climate change will have an effect on extreme weather events, only 11 of the 88 companies reported having formal climate risk management policies in place, and more than 60 percent of the respondents reported having no dedicated management approach for assessing climate risk". In contrast, the level of compliance across the ClimateWise Principles demonstrates that, for most members, activities supporting management and assessment of climate risk are well established.

At the individual member level, the compliance ranking table (Appendix C in the full Review report) shows there have been a number of key movements in the year. We have seen both considerable advances and falls in the ranking among the membership. The quality of reporting and activity for four members has seen their ranking advance by over 8 places in the table. However, those that fell back struggled to show year-on-year progression or were overtaken as others improved.

For the first time this year we have included an 'Integration Analysis' as a measure of how well members are linking climate change and corporate strategy. A summary of the methodology is on page 31. The analysis concluded that a little over three quarters of members score either gold or silver (having achieved a total score of 80% or above). Only two members scored below 50% demonstrating that the majority of members are making progress in linking climate risk to strategic statements and providing evidence of activity in key functions of the organisation. However, only 27% of members were able to demonstrate a fully integrated approach to climate risk. These members were awarded gold status in the integration analysis.

This year has seen a change to the scoring methodology which now sees an overall compliance score awarded which also includes an element for disclosure. This change is designed to simplify the scoring and reporting process. Further details of these changes are included in Appendix A in the full Review report.

A summary and detailed review of compliance and reporting against the ClimateWise Principles are contained the full Review report along with case studies identified in the course of the analysis and recommendations and conclusions from the independent reviewer.

The Independent Reviewer's Main Conclusions

It is encouraging to see ClimateWise members maintain the high levels of compliance with the principles in the face of unprecedented economic and operational turmoil in the sector. However, as observed last year, we continue to see a wide spectrum in both the approach to reporting against the principles and in the depth and quality of activity to achieve compliance. In this period in particular, we have observed that a large proportion of members have struggled to demonstrate year on year progress. This is most relevant in relation to Principles 2 – 'Inform public policy-making' and 5 – 'Reduce the environmental impact of their own business'. The former is a reflection of the fallout from a disappointing outcome at the Conference of the Parties (COP) 15 in Copenhagen and the difficulty in engaging leadership in the business regarding COP 16 in Cancun. As a result, a significant number of responses to this principle were identical to those received for the Third Review period.

One area of the principles which has seen the highest increase in compliance is sub-principle 4.3 – 'Encourage improvements in the energy-efficiency and climate resilience of our investment property portfolio' which has seen an 18% rise. This increase appears to have been driven through better reporting and disclosure of efforts in this area, aligned with a couple of leading practice examples which are highlighted in the report. Previous reviews have highlighted the relative low performance of this sub-principle.

In relation to principle 5, compliance dipped from record levels in last year's review again as a result of a lack of year on year progress in employee engagement activity, evidenced by identical responses in a significant number of member reports. The driver for this is not clear; it may be that budgetary constraints have prevented new activity, or that members are struggling for new approaches to engaging employees on the issues. Either way, we see this as a key issue to be addressed and one in which ClimateWise may be able to support through its collaborative group activity.

Our new integration analysis has highlighted that seven members, a little over a quarter (27%) of the membership, can clearly demonstrate a fully integrated approach to climate risk across core business operations. These 'gold' ranked members consistently provided a strong external strategic statement relating to climate change, articulated how the issues affect core functions and how the organisation is addressing the issues in those functions. Those that achieved the gold ranking also supported the strategic commitments with full or near full compliance across all the relevant sub-principles, thus evidencing that the member's strategic statement was supported by action in the core functions.

However, we continue to see a lack of explicit evidence or specific reporting that strategic linkages are being made across the principles among the majority of the membership. As suggested in the last review, those that are able to demonstrate that activity in one principle is informing and supporting activity in another are able to articulate strong evidence that climate risk is an integrated, embedded part of core activity. This is particularly true for research informing product development and/or investing activity. Similarly, we see a good level of disclosure relating to governance structures and high level board responsibility for managing climate risk. However, what we see much less of is evidence that the executive oversight is leading directly to climate risk being incorporated into core business strategy and planning. We therefore feel there is more that members could do in their ClimateWise reporting to be more explicit about the cross-principle linkages the business is making and the direct impact climate risk and opportunity is having on core functions.

PricewaterhouseCoopers LLP
1 Embankment Place, London, WC2N 6RH.

The ClimateWise Principles

Principle 1: Lead in risk analysis

1.1 Support and undertake research on climate change to inform our business strategies and help to protect our customers' and other stakeholders' interests.
1.2 Support more accurate national and regional forecasting of future weather and catastrophe patterns affected by changes in the earth's climate.
1.3 Use research and improve data quality to inform levels of pricing, capital and reserves to match changing risks.
1.4 Evaluate the risks associated with new technologies for tackling climate change so that new insurance products can be considered in parallel with technological developments.
1.5 Share our research with scientists, society, business, governments and NGOs through an appropriate forum.

Principle 2: Inform Public Policy Making

2.1 Work with policy makers nationally and internationally to help them develop and maintain an economy that is resilient to climate risk.
2.2 Promote and actively engage in public debate on climate change and the need for action.
2.3 Support work to set and achieve national and global emissions reduction targets.
2.4 Support Government action, including regulation, that will enhance the resilience and reduce the environmental impact of infrastructure and communities.
2.5 Work effectively with emergency services and others in the event of a major climate-related disaster.

Principle 3: Support climate awareness amongst customers

3.1 Inform our customers of climate risk and provide support and tools so that they can assess their own levels of risk.
3.2 Encourage our customers to adapt to climate change and reduce their greenhouse gas emissions through insurance products and services.
3.3 Increase the proportion of repairs that are carried out in a sustainable way through dialogue with suppliers and developers and manage waste material appropriately.
3.4 Consider how we can use our expertise to assist the developing world to understand and respond to climate change.

Principle 4: Incorporate climate change into our investment decisions

4.1 Consider the implications of climate change for company performance and shareholder value, and incorporate the information into our investment decision making.
4.2 Encourage appropriate disclosure on climate change from the companies in which we invest.
4.3 Encourage improvements in the energy-efficiency and climate resilience of our investment property portfolio.
4.4 Communicate our investment beliefs and strategy on climate change to our customers and shareholders.
4.5 Share our assessment of the impacts of climate change with our pension fund trustees.

Principle 5: Reduce the environmental impact of our business

5.1 Encourage our suppliers to improve the sustainability of their products and services.
5.2 Measure and seek to reduce the environmental impact of the internal operations and physical assets under our control.
5.3 Disclose our direct emissions of greenhouse gases using a globally recognised standard.
5.4 Engage our employees on our commitment to address climate change, helping them to play their role in meeting this commitment in the workplace and encouraging them to make climate-informed choices outside work.

Principle 6: Report and be accountable

6.1 Recognise at company board level that climate risk has significant social and economic impacts and incorporate it into our business strategy and planning.
6.2 Publish a statement as part of our annual reporting detailing the actions that have been taken on these principles.

Summary of Findings

This independent review is focused on determining the level of compliance against the six ClimateWise Principles. The overall finding of the analysis of the 26 member reports shows that the level of compliance has remained at the high level achieved last year and stands at 88% across the principles. Four of the principles now have a compliance score of 90% or more.

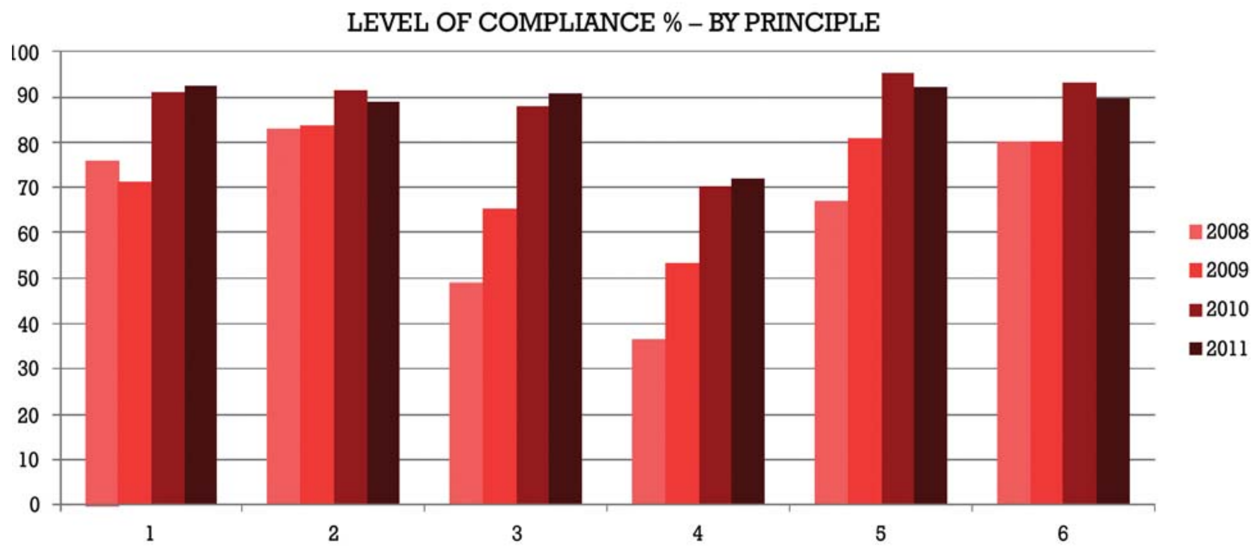
The findings highlight that over 70% of all member responses to sub-principles achieve full compliance and disclosure, whereas fewer than 5% achieve a zero score. Both of these trends show an improvement over the previous year and although overall compliance has marginally reduced in three principles (2, 5 and 6), members continue to demonstrate a strong commitment to reducing climate risk, through climate change adaptation as well contributing to risk mitigation through their work reducing carbon emissions.

The scoring has changed this year in order to simplify the way in which disclosure and compliance are measured. This has resulted in slightly lower scores overall for previous years due to the fact that disclosure now forms part of the compliance score. Crucially this has not altered the overall movement of progression against the principles that the membership has shown year on year.

Activities to comply with **Principle 1 – 'Lead in risk analysis'** should play to the core strength of insurers. It is critical to the development of a climate resilient and adequately adapted lower carbon economy that the insurance sector is able to accurately assess and price the risks associated with climate change, incorporate this insight into other core activities (such as asset management) and share the research with others. It is therefore encouraging that ClimateWise members' overall compliance across principle 1 has now reached 93%. This is a slight increase on the previous years' already high level (91%). Compliance with sub-principle 1.3 'Use research and improve data quality to inform levels of pricing, capital and reserves to match changing risks', identified last year as critical to the integration of climate risk into core processes, was an area that saw continued increase in compliance. At 96% compliance it is at its highest level ever, building on progress made since the 2009 review.

For the fourth year running principle 1.4 'Evaluate the risks associated with new technologies for tackling climate change so that new insurance products can be considered in parallel with technological developments' proved to be the area which members continue to find challenging. However, this does not mean there have been no developments; in fact some members are actively targeting this area and have developed new products and services as low carbon technology and understanding of the associated risks matures. This is in addition to some of the more established policies for household cover for wind turbines and solar panels.

Figure 1: Principle by principle comparison at group level (2008-2011), % Level of compliance.



Principle 2 – 'Inform public policy making' again proves to be an area where members perform well with a compliance score of 89%. Although the overall score is slightly lower than the previous year it is not due to any particular factor; seven members improved their score and seven members saw their score decrease. Members continue to highlight a number of public policy interventions across the sector and provide examples of engagement with government agencies, civil society and international bodies to help inform and shape public policy. A number of members reported their support to the discussions around the future of the ABI's Statement of Principles for the provision of flood insurance, a key area for the insurance industry in the UK. Sub-principle 2.5 ('Work effectively with emergency services and others in the event of a major climate-related disaster') saw a significant rise in the level of compliance as members advance their reporting of activity in preparation and planning procedures for climate-related disaster events.

The improvement in compliance has again been maintained in **Principle 3 – 'Support climate awareness amongst our customers'**. The level of compliance has now reached 91% up from 88% last year. This is the strongest uplift across all the principles this year, as it was in 2010 and a clear area of focus. Members demonstrate a commitment to supporting awareness among customers by informing them of climate risks and providing support and tools so that they can assess their own level of risk. A variety of methods are being used to communicate with customers, with the use of online social media identified as an effective tool. In relation to sub-principle 3.3 ('Increase the proportion of repairs that are carried out in a sustainable way through dialogue with suppliers and developers and manage waste material appropriately') the majority of members made reference to their involvement in the ClimateWise Collaboration on Built Environment looking at how insurers reduce the environmental impact of the claims process so as to contribute cost-effectively to mitigating risk.

Principle 4 – 'Incorporate climate change into our investment decisions' remains the area of relative underperformance for the membership but overall compliance across the sub-principles this year has risen to 72% from 70% last year. This headline figure hides a number of swings in performance across the sub-principles, namely 4.1 and 4.3. Firstly, sub-principle 4.1 ('Consider the implications of climate change for company performance and shareholder value, and incorporate the information into our investment decision making') has seen a reduction in compliance of approximately 14%. There are differing approaches among the membership, with a large number of members committing to considering environmental, social and governance (ESG) factors alongside mainstream company analysis and using analysis to inform investment portfolio construction and investee company engagement. On the other hand there are members with investment strategies that do not include climate risk considerations as they are not deemed to be a significant driver of financial value. The second area to show significant movement was sub-principle 4.3 'Encourage improvements in the energy-efficiency and climate resilience of our investment property portfolio' which has seen compliance increase by 18%. The main driver was evidence of greater efforts to understand and act upon the energy efficiency of property portfolios; this is positive progress and to be expected as energy reduction relates directly to cost and value.

Compliance with **Principle 5 – 'Reduce the environmental impact of our business'** continued to be very strong, at over 92%. However, compliance levels are slightly down on the previous year (95%) as members have struggled to demonstrate year-on-year progression, particularly in relation to sub-principles 5.1 (engaging with suppliers) and 5.4 (engaging with employees). For many members policies and procedures to reduce the direct environmental impacts of their businesses are well established as part of their sustainability strategies. Understanding the environmental impact of the whole value-chain is particularly pertinent for general insurers as they seek to understand and reduce the environmental impact of the claims process. Last year we saw one member working to understand the carbon footprint of their entire supply chain (both direct and indirect). In the current year we have seen further progress in the calculation of the carbon footprint for the complete value-chain of a product. This has resulted in a product specific carbon reduction target.

Compliance across **Principle 6 – 'Report and be accountable'** remains high, at 90%. Members take reporting and accountability seriously which is highlighted by the number of members who reported that responsibility for managing climate risk and sustainability strategies has reached the highest levels of their organisation. In relation to reporting progress a small proportion of members produce a well structured, separate report specifically outlining efforts to address the ClimateWise Principles and publish this document on public websites. Others refer to ClimateWise membership within Corporate Responsibility (CR) reports and on CR websites and also guide the reviewer to these reports to demonstrate compliance with sub-principle 6.2 ('Publish a statement as part of our annual reporting detailing the actions that have been taken on these principles').

Summary of Recommendations

Principle 1 ('Lead in risk analysis') achieved the highest level of compliance across the ClimateWise Principles and improved slightly on the previous year. While activity to support the accurate pricing of risk is critical and must continue, we have seen a small number of members report research activities outside of underwriting. For example, research programmes to understanding consumer attitudes and needs relating to climate risk and adaptation have been cited this year. It is recommended that this type of wider market research and analysis must continue if the sectors' response is to be effective. We would also continue to encourage members to better demonstrate how their research is informing wider business strategies and explicitly articulate how their research is being integrated across all Principles.

Compliance across **Principle 2 ('Inform public policy making')** remains high as members continue to engage in debate with policy makers. Members have increased dialogue on the issue of adaptation to climate risk, reporting their involvement in a number of different studies. Although it is recognised that many of these studies are longer term in nature, it remains important for members to cite the relevant adaptation activities they have been involved with during the reporting period. It is challenging to assess compliance for members who continue to use examples from prior years where no new activities have been undertaken.

Members who continued to have difficulties providing relevant examples in relation to sub-principle 2.5 ('Work effectively with emergency services and others in the event of a major climate-related disaster') should also be looking to take actions in relation to planning for climate-related disasters. There is evidence of leading practice in planning for such events among the members but it is not universal and more work can be done in this area.

With reference to **Principle 3 ('Support climate awareness amongst our customers')**, there continues to be some significant barriers preventing the attractiveness and uptake of lower carbon solutions and resilient repairs by consumers. These barriers could be addressed by members looking at the lifecycle rather than upfront cost and providing innovative financing options that recognise initial higher capital costs are often offset with much reduced operating expenses. More importantly this highlights the real need for members to seek further insight from their research activities to help identify the barriers and address these with the development of products and services relating to reducing their environmental impact. There is an onus on the sector to lead the consumer on this journey, through education and communication. Members need to develop solutions that effectively communicate climate-related risks and reward mitigation and adaptation. These need to be made accessible and acceptable for the mainstream consumer.

Principle 4 ('Incorporate climate change into our investment decisions') remains a challenging aspect of the ClimateWise Principles and therefore some of the recommendations outlined in previous years remain valid. Although there have been some very good examples of members who are establishing integrated strategies in relation to climate risk and investments, there remains a significant number of members who have not started these conversations. The sector as a whole is not realising the potential it has to influence change. Investment teams need to be more actively engaged in climate risk and understand how this can be linked to the company's overall business strategy. Dialogue between responsible investment teams and core investment teams is happening in some companies but this remains an area for improvement. There is a widening distance between those members who are engaged on this issue and those who are not.

Those members who did not score well in relation to sub-principle 4.2 ('Encourage appropriate disclosure on climate change from the companies in which we invest') should be looking to develop a more proactive approach to encouraging investee companies to adopt better disclosure and reporting practices. Leading practice in this area is being achieved by a select few who are actively engaging and influencing investee companies on a number of levels to ensure they demonstrate transparency and a commitment to behavioural change in the long-term. There is an incentive for investors, the 2011 Carbon Disclosure Project Report(4) concluded; 'Companies in the Carbon Disclosure Leadership Index and Carbon Performance Leadership Index delivered approximately double the total return of the Global 500 companies between January 2005 and May 2011. This suggests a strong correlation* between good climate change disclosure and performance, and higher financial performance.'

(*correlation: statistical correlation, based on daily returns, between 2011 CDLI and the Global 500 is 0.5, and between the 2011 CPLI and Global 500 is 0.6 (from 1 January to 31 May 2011). It is likely that other factors will influence the relationship between financial performance and high carbon disclosure and performance scores. These could include the capability of the management or the company's broader approach to identifying and capitalising on opportunities or managing risks)

Communication of investment strategies to shareholders and customers is an area which could see further improvement. This and the dissemination of climate change knowledge to pension fund trustees rely too much on passive, indirect methods of communication. These are the worst performing sub-principles and members do not appear to be addressing them in a strategic manner. Members have a wealth of knowledge and experience in relation to the impacts of climate change which could provide great benefits to pension fund trustees so that they can consider these issues when making investment decisions.

Members have performed well in **Principle 5 ('Reduce the environmental impact of our business')** and have demonstrated good progress against recommendations made in previous years. In the future, the challenge for members is to maintain momentum and further develop the sophistication of activities in this area, particularly focusing on aligning activities to support core business strategies.

In particular, it is important that members develop a more sophisticated understanding of the indirect impacts of their operations. Understanding the environmental impact of supply chains is a first step in this process and is something that few members are currently doing. Once members have this information it will be possible for them to develop more sophisticated and more targeted reduction plans, for example, by understanding the carbon footprint of specific products and claims value chains. Experience from other sectors would suggest that significant cost savings are achievable through carbon reduction in supply chains. This is another area where the power and scale of the sector is not being brought to bear in a strategic manner.

There is also the opportunity for members to drive innovation through engaging with employees on how climate change presents both risks and opportunities for core business functions. To date employee engagement has mostly been focused on raising awareness of the issue and encouraging employees to reduce their direct impact. There is a risk that saturation point is approaching and employees will become disengaged with the issue. Members can maintain momentum and help drive business performance by helping employees to understand how climate change issues may influence business strategy, and what role they can play in its design and implementation.

Principle 6 ('Report and be accountable') achieved a high level of compliance and members have been able to clearly articulate the type of climate change responsibility assumed at board level and the concrete actions taken over the course of the year. An additional step towards leading practice would be for members to describe the impact these actions are having within the Principles to further demonstrate senior level involvement in strategic decisions.

Members' ClimateWise submissions vary widely in size, format and style and approach to public reporting is also varied. We would encourage the ClimateWise Managing Committee and members to agree a standard format for reporting and encourage greater public disclosure specifically in response to ClimateWise Principles. This would improve comparability and assessment. In addition, members should assess whether examples from prior years are relevant to demonstrating continued progress against the principles and be more transparent in communicating those areas where no activity has been undertaken in the current year.

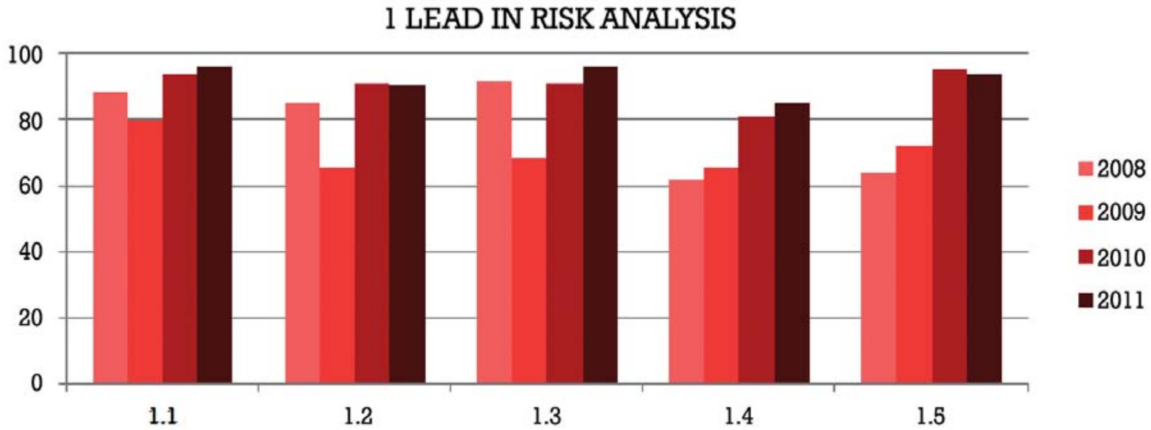
Principles analysis

Principle 1: Lead in risk analysis

1.1 Support and undertake research on climate change to inform our business strategies and help to protect our customers' and other stakeholders' interests.
1.2 Support more accurate national and regional forecasting of future weather and catastrophe patterns affected by changes in the earth's climate.

Introduction

Insurance companies continue to invest in research to further understand the risks and opportunities presented by climate change as well as effective risk reduction and adaptation interventions. There is evidence that research is used to inform core business strategies and levels of pricing, capital and reserves. It is therefore no surprise that members have traditionally performed well in this Principle, a tradition continued this year as detailed below.



1.3 Use research and improve data quality to inform levels of pricing, capital and reserves to match changing risks.
1.4 Evaluate the risks associated with new technologies for tackling climate change so that new insurance products can be considered in parallel with technological developments.
1.5 Share our research with scientists, society, business, governments and NGOs through an appropriate forum.

Summary of findings:

This reporting year saw an excellent response to the sub-principles. Overall compliance has now reached 92% which is a slight increase on the previous year. For the fourth year running principle 1.4 'Evaluate the risks associated with new technologies for tackling climate change so that new insurance products can be considered in parallel with technological developments' proved to be the area which members continue to find challenging. Against this continuing trend though there are significant developments being made by some members with new products and services now being introduced as low carbon technology and understanding of the associated risks matures. Sub-principle 1.3 'Use research and improve data quality to inform levels of pricing, capital and reserves to match changing risks' is an area that saw an increase in the level of compliance. Although, due to the sensitivity of the information, members were not always able to include detailed examples of how data was being used, nearly all commentated that they are actively using research to ensure that pricing, capital and reserves matched changing levels of risk.

This year members included both examples of new research that had been undertaken during the reporting year as well as commenting on their participation in relation to ongoing projects. Members scored well where they provided examples of how their research was being used to inform business strategy (sub-principle 1.1). A common theme amongst members this year was in relation to undertaking customer or market research. Areas included appetite for environmental goods and services **(Aviva)**, what customers need in relation to dealing with claims **(RBS Insurance)**, and attitudes to risks facing the insurance industry **(Chartered Insurance Institute (CII))**. The **Association of British Insurers (ABI)** for example, commissioned research into consumer attitudes to resilient repair, including quantitative and qualitative analysis of flood victims and those in flood risk areas who had not been flooded. This research will be used to inform the industry's approach to repairing property in a resilient manner and discussions with government groups on encouraging property-level adaptive measures.

Other areas of research included the debate surrounding social, environmental and financial risks associated with unconventional oil **(The Co-operative Insurance)**, typhoon research in China **(Aon)**, and green building trends and local green building standards **(Chartis)**.

Members are continuing efforts to support and invest in more accurate national and regional weather and catastrophe patterns (sub-principle 1.2). There were a few new examples; **ABI** sits on a stakeholder group for the new Flood Forecasting Centre - a partnership between the Environment Agency and the UK Met Office to forecast river, coastal and tidal flooding as well as extreme rainfall. **Lloyd's of London** published a report called "Forecasting Risk: The value of long-range forecasting for the insurance industry". This was a joint **Lloyd's of London** and UK Met Office report which examines the potential value of long-range forecasting for the insurance industry and follows a series of expert workshops at Lloyd's. The report highlights how forecasting scientists are developing models to predict weather events and patterns over timeframes from the seasonal to several years, which should be useful to insurers.

Case Study: Nordic Adaptation Research Programme

ClimateWise members **Tryg** and If **P&C**, together with two other Nordic insurance companies, Gjensidige and Codan are financing a three year Nordic Adaptation Research Programme which includes the development of an interactive tool for private customers helping them to evaluate risks posed by changing climatic conditions and giving them practical advice on low-cost measures to reduce their vulnerability. It is an industry wide collaboration so no individual company gains a competitive advantage and will help to improve strategy development and decision-making at all levels across the industry.

Several members are actively engaged with universities in relation to commissioning or supporting research. For example, **Tryg** are supporting research involving the Danish Insurance Association, Forsikring & Pension, who have recently initiated research with the Technical University of Denmark and the University of Copenhagen. The aim is to collect detailed claims data concerning damages due to precipitation from all the insurance companies and to use this data to inform local planning and regulation. **Santam** sponsored an academic research project on climate risk adaptation which looked at local government's capacity and barriers in climate risk adaptation. The research focused on adaptation to weather-related disasters such as flood, drought and storm surge/coastal flooding. Key findings from this project were shared and will inform their engagements with local governments around climate change adaptation.

Sub-principle 1.3 saw an increase in compliance and at 96% is at its highest level ever. This increase can, in the main, be attributed to an improvement in the level of disclosure rather than new and more detailed examples of how research is being used to inform pricing, capital and reserves which is understandable given the commercial confidentiality of this area. The reporting requirements for this sub-principle require the member to communicate that they "support the underlying assumption that the research on climate risk should be used actively to influence core business decisions". Most members report that they actively use data to more accurately determine levels of risk and subsequently appropriate pricing. Research and modelling activities are focused on providing senior management and underwriter's with information that can be used to inform decisions on pricing, reinsurance and capital and reserve calculations.

Through a variety of networks, research undertaken by members is shared and debated. This remains an important aspect and is a common behaviour demonstrated by many members. Established knowledge transfer programmes such as The Geneva Association, Willis Research Network and the Lighthill Risk Network continue to be popular hubs for this activity. Members host, sponsor or present at events to share their thinking or to collaborate and maximise the opportunities these events provide. Willis for example, hosted about 25 events during the year including a Biodiversity Risks and Opportunities for Insurers event with UNEP FI. Aon sponsored the first annual Asia Insurance Review Climate Change Summit in Singapore where they shared their latest research on typhoon risk in China with a global audience of insurers and civil society stakeholders. In June 2011, Zurich hosted a meeting with more than 50 natural scientists of the insurance and reinsurance industry in Zurich to discuss topics of interest.

Case Study: Chartis Energy Warranty Product

Project Finance Advisory Services created an energy warranty product offered by Chartis that helps shift technology risk away from wind and solar project sponsors and their lenders, thereby improving the likelihood of funding and ultimately making more renewable energy projects possible in the market. More specifically, this coverage includes break/fix, serial defect, power curve and availability, with the latter two being particularly relevant for funding sources to protect the integrity of cash flow. The strong engineering skills of Chartis allow the business to underwrite this risk, thereby supporting the development of renewable energy technologies that reduce carbon emissions.

This year there has again been some good examples of progression in relation to sub-principle 1.4. Whilst it continues to prove to be the most challenging aspect of Principle 1 there are some members who have progressed this issue during the reporting year and are offering products in addition to some of the more established policies for household cover for wind turbines and solar panels. For example, Aviva conducted extensive research resulting in a new range of insurance cover for onshore wind, solar and energy from waste power generation, biomass energy production, and environmental consultancy and building technologies. **Risk Management Solutions (RMS)** has continued its research on how to model the risk of wind, flood and hail on alternative forms of electricity generation. They can now analyse the risk to wind farms and how this risk may correlate with other property losses onshore.

The ClimateWise collaboration workstreams also provide an excellent and meaningful forum in which to exchange thinking and information. The work these groups are progressing is covered in a separate section *(see page 33).*

Recommendations

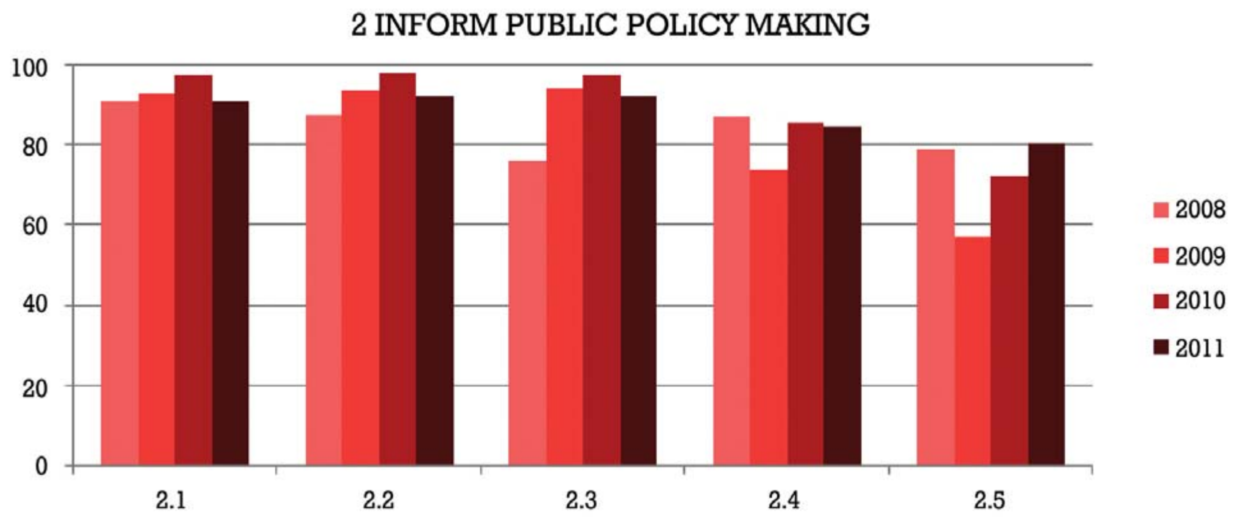
Principle 1 achieved the joint highest level of compliance across the ClimateWise Principles and has improved slightly on last year. There are many examples of ongoing progression as well as new activities and initiatives. Members are now demonstrating how their research is being used and integrated across all Principles and into their core business strategies but reporting in this area still needs to be explicit in linking research with action or strategic decisions.

Members continue to support more accurate forecasting of weather patterns by purchasing data models and providing feedback to the providers to further improve their data quality. During this reporting period however, a number of members cited examples and provided information previously communicated without showing any new or ongoing commentary. It would be useful in future to see more information relating to how this data is used.

Although there were some notable developments in relation to Sub-Principle 1.4 there continues to be a relatively low number of members who are progressing this issue beyond insuring physical assets. It was encouraging to see some members this year undertake research into how insurance products could help support new technologies in other areas and in doing so support wider climate risk adaptation measures. While activity to support the accurate pricing of risk is critical and must continue, we have seen a small number of members report research activities outside of underwriting. For example, research programmes to understanding consumer attitudes and needs relating to climate risk and adaptation have been cited this year. It is recommended that this type of wider market research and analysis must continue if the sectors' response is to be effective.

Introduction

Scientific evidence continues to suggest that climate change is likely to increase the risk of natural disasters and flooding. If this happens, customers and businesses could see insurance premiums escalate. Such volatility underpins the continuing need for society to adapt to the impacts of climate change. ClimateWise members who engage with public policy makers can be instrumental in both protecting the interests of society against the financial consequences of climate change and, protecting the financial stability of insurance markets.



Principle 2: Inform Public Policy Making

2.1 Work with policy makers nationally and internationally to help them develop and maintain an economy that is resilient to climate risk.
2.2 Promote and actively engage in public debate on climate change and the need for action.
2.3 Support work to set and achieve national and global emissions reduction targets.
2.4 Support Government action, including regulation, that will enhance the resilience and reduce the environmental impact of infrastructure and communities.
2.5 Work effectively with emergency services and others in the event of a major climate-related disaster

The majority of members continue to demonstrate full compliance with the various components of this Principle highlighting a number of public policy interventions across the sector. Although specific evidence for the 2011 reporting period has been more limited compared to recent years, this level of compliance continues to demonstrate that leading companies remain focused on the climate agenda and members as a whole show genuine engagement with government agencies, civil society and international bodies to help inform and shape public policy.

Summary of Findings

Members continued to demonstrate strong performance in working with policymakers nationally and internationally to help them develop and maintain an economy resilient to climate risk (sub-principle 2.1). This was the third highest performance across principle 2 at 91% with a large number of members publically supporting the discussions around the future of the ABI's Statement of Principles for the provision of flood insurance. In the face of these negotiations, it is evident that most members see the relevance in engaging in public debate and, in association with the ABI, continue to be active in lobbying the UK Government for adequate investment in flood defences and changes in the national planning system to reduce future flood risk.

The **ABI**, with support from other members, also evidence their work with the Department of Energy and Climate Change contributing an insurance industry perspective to the 'Green Economy Roadmap' published this spring. The roadmap was developed in response to requests from the private sector for greater clarity on what the UK Government means by the term "green economy" and its policies for achieving this. Similarly, **The Co-operative Insurance** led the campaign for the Green Investment Bank and a call to the Prime Minister on how this could and should operate.

It is worth noting that, on a global scale, members across the industry are demonstrating involvement in official studies on adaptation to climate change. Some members such as Swiss Re and RMS are also demonstrating the value of risk transfer in climate adaptation from the most exposed developing countries.

Consistent with last year's reporting period, sub-principle 2.2 demonstrates the highest level of compliance across Principle 2 at 92%. For a few members, specific evidence of external engagement in public debate was somewhat limited but for the majority of members, compliance was awarded for continued active engagement in relevant collaborative groups such as UNEP, MCII, IIGCC and ClimateWise itself. Interestingly, Chartis is currently sharing the benefits of ClimateWise membership through its participation in the North America Outreach Strategy, an initiative to identify and reach out to a pioneer group of North American insurers to identify their collaborative learning needs. A few members cite their active involvement in the development of the UNEP FI's Principles for Sustainable Insurance (PSI). Member involvement in the consultation processes for the PSI is expected to continue as they are finalised in time for presentation at Rio+20 in 2012.

Tokio Marine & Nichido Fire (TMNF) Insurance referenced the release of the "Global Insurance Industry Statement on Adapting to Climate Change in Developing Countries" in September 2010 in cooperation with ClimateWise, Munich Climate Insurance Initiative, UNEP FI and The Geneva Association. TMNF contributed to the drafting of the statement, translated it into Japanese and provided it for publication on the **Geneva Association's** website
.

There was a small range of innovative and targeted examples of members promoting public debate. RSA, working with WWF and others, are engaging planners and the UK Government to promote sustainable urban drainage systems (SuDS) as an integrated approach to water management. Their report, highlighting SuDS risks and opportunities, was launched at the UK House of Commons early in 2011. Swiss Re had strong presence at the World Economic Forum Annual Meeting in Davos, with their CEO hosting a roundtable discussion on global risks related to food security, climate risk and natural catastrophes.

In response to sub-principle 2.3, supporting work to set and achieve national and global emission reductions, the majority of members continued to reference themselves as signatories to the Copenhagen Communiqué. In this reporting period, fewer members cited the follow-up negotiations in Cancun. Following the modest results at Copenhagen, Cancun played an important role in renewing the global appetite for action. At the time of writing, ClimateWise members **Legal & General** and **Santam** had referenced their support for the upcoming 2 Degree Challenge Communiqué.

The majority of members highlighted evidence of their internal targets for emission reductions with a few members achieving carbon neutrality in this reporting period. A number of members are now subject to the mandatory UK Government CRC Energy Efficiency Scheme which aims to improve energy efficiency and cut emissions. The CII and Friends Life have achieved Carbon Trust Standard accreditation illustrating their absolute reductions in CO_2 emissions and their commitments to reducing these emissions year on year. Legal & General reference their attention on reducing impact rather than offsetting. This kind of evidence, coupled with increased level of consistency in behaviours across the industry, suggests that ClimateWise members are now focused more on delivering reductions in line with national government commitments and are serious about the need for compulsory emission targets.

Evidence of supporting government action to enhance the resilience of infrastructure and communities remained similar to last year's level with members scoring 85% for sub-principle 2.4. Evidence cited demonstrated the common theme around the UK Government support in the renegotiation of the statement of flood principles in 2013 consistent with sub-principle 2.1. There were more noteworthy examples of compliance. RMS highlighted how their investments in R&D efforts help developing world regions understand climate catastrophe risk and options for risk management. **RMSI** (a wholly-owned subsidiary of **RMS** based in India) has a modelling team dedicated to undertaking projects for policymakers, NGOs and development banks focused on integrating climate risk management into development policy. The information is used to address the key elements of an adaptation plan that helps to improve climate resilience and adaptive capacity in these regions. Similarly, Swiss Re offered an interesting example in one of the poorest regions in Central America highlighting the launch of their new disaster preparedness project in El Salvador's Bajo Lempa river delta, demonstrating a community level initiative where impacts are most acute.

In this reporting period, members have scored their best ever level of compliance when demonstrating how they work with emergency services and others (sub-principle 2.5). The improved compliance compared to previous years, may be a result of an increased focus in members responses on catastrophe planning and disaster mitigation rather than specifically noting the lack of any climate-related disasters.

The majority of members were able to evidence their engagement in planning work which, in some instances, proved valuable in dealing with the adverse and exceptionally cold weather throughout the UK last winter. This was illustrated by RSA who use a web-based emergency response tool and risk mapping to speed up their responses with claims handing. The tool was used in the North-West of the UK to pinpoint customers likely to be affected by the adverse weather conditions, enabling RSA to be proactive in managing their likely claims. In Norway, preparedness for a major climate related disaster is organised in connection to the Natural Perils Fund. Both Tryg and If P&C were able to demonstrate collective preparedness drawing on resources from the industry as a whole.

The most noteworthy example comes from the **ABI, Lloyds Banking Group and Lloyd's of London** all of whom evidence their involvement in Exercise Watermark, the largest civil defence preparedness event held within England and Wales. It provided a solid test of the nation's flood readiness, involving over 20,000 individual players across the resilience community and has placed people and communities of England and Wales in a safer position than they were prior to the exercise.

Recommendations

Despite leading companies continuing to demonstrate engagement in the international debate with policy makers, some members appeared to have less specific evidence to communicate in relation to informing public policy making across sub-principles 1 to 4. Occasionally, members highlighted collaborative groups they have supported without being able to provide information as to what their particular role had been or what value they had added.

Members continue to cite examples of work performed or initiatives supported in prior years as evidence of compliance and in a number of cases, it is not until the interview stage where any actual progress is determined. A common example was reporting relating to supporting the Copenhagen COP15 UNFCCC summit. This took place in 2009 and although it had greater media coverage than the more recent Cancun COP16, it was not relevant to the current reporting year and therefore did not count as an example of active engagement with policy makers.

Case Study: Lloyd's of London Emergency Planning Workshop

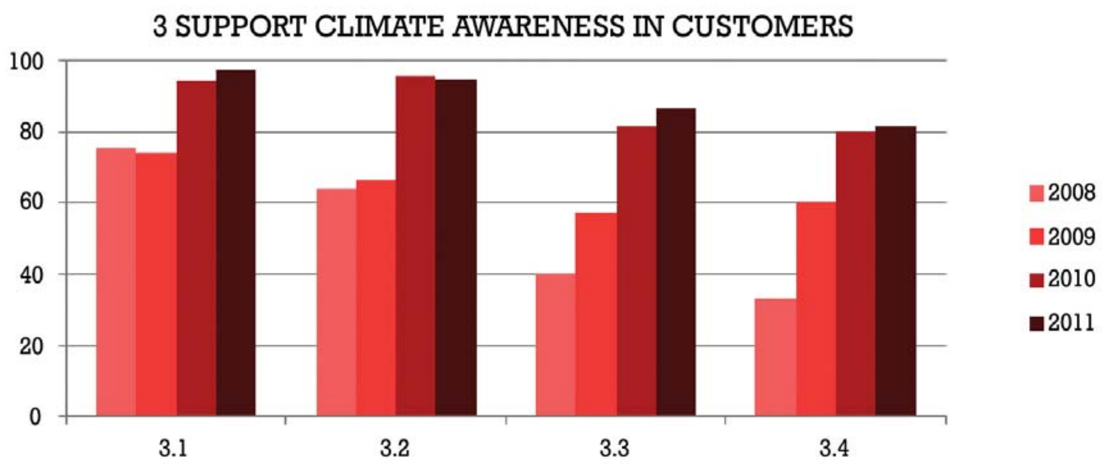
Lloyd's of London offer a good example of such planning work in partnership with the Royal United Services Institute. They ran a workshop that brought together representatives of organisations involved in planning for, responding to and recovering from a flood emergency, with representatives of the insurance industry, to explore how closer working practices might lead to improved flood resilience for individuals, communities and the UK as a whole.

A recommendation from previous years related to the difficulties members had in demonstrating compliance with sub-principle 2.5. A lack of climate-related disasters in some countries was used as the reason why no evidence of compliance was submitted. Planning for such events is a crucial part of an insurance company's emergency planning procedures and work done in this area during the year should also score compliance. Perhaps the scope of the sub-principle could be widened to include this aspect which would ensure all members provided a response if relevant to their business.

Introduction

Insurers' unique insight into climate related risk gives the sector an important opportunity to help corporate and consumer customers to understand their own exposures and contribution to those risks. The sector also clearly plays an important role in the transfer of those risks as a matter of business as usual as well as helping customers to understand available adaptation measures.

Summary of Findings
Members' compliance in relation to this Principle in the 2010 reporting period has again improved on last years' substantial gains to reach 91%. Members continue to demonstrate their



Principle 3: Support climate awareness amongst customers

3.1 Inform our customers of climate risk and provide support and tools so that they can assess their own levels of risk.
3.2 Encourage our customers to adapt to climate change and reduce their greenhouse gas emissions through insurance products and services.
3.3 Increase the proportion of repairs that are carried out in a sustainable way through dialogue with suppliers and developers and manage waste material appropriately.
3.4 Consider how we can use our expertise to assist the developing world to understand and respond to climate change.

supporting of awareness among customers by informing them of climate risk and providing support and tools so that they can assess their own level of risk. All members achieved at least partial compliance in accordance with sub-principle 3.1 ('Inform our customers of climate risk and provide support and tools so that they can assess their own levels of risk').

Members cite the use of promotional literature such as policy documents, campaign leaflets and magazines on renewal, for providing essential information on managing risks and influencing consumer behaviour. For example, the **ABI's** guidance document 'A Guide to Resistant and Resilient Repair after a Flood' sets out how individual consumers can make their own properties resilient. The spotlight on flood damage claims in the industry remains evident. Members continued to provide evidence of advice on flood protection and resilience through the communication channels mentioned above and predominately through the use of websites, as outlined by **Allianz, Hiscox, Lloyds Banking Group** and **NFU Mutual**. Zurich continues to provide the severe weather micro-site

providing 'before', 'during' and 'after' guidance to people coping with severe weather. It has received more than 20,000 visits and flood videos have been viewed 4,000 times since its launch in 2010. This type of quantitative evaluation of activity is not common and is encouraged in future reporting.

Other communications for supporting awareness amongst customers include news bulletins, texting customers on weather conditions, guides on company websites and email messages to key customers and specifically, the use of Twitter as highlighted by Chartis and Ecclesiastical. A noteworthy example of news bulletins are the risk alerts designed to inform customers of the latest climate risks, from the Aon Benfield UCL Hazard Centre (ABUHC); Europe's leading multidisciplinary hazard research centre. Lloyd's of London refers to the syndicate member Ace's internet based platform, ACE Green. This platform highlights the company's full range of environmental and sustainability products and services available in every region in which ACE operates around the world. In this reporting period, the company has undertaken a Search Engine Optimisation programme for ACE Green to further increase awareness of their green insurance products amongst brokers and customers.

Life and pension providers continue to find it more difficult than general insurers to reach end customers directly. The Corporate Responsibility (CR) reports were evidenced as the main vehicle for informing customers of climate change policy positions.

Leading members achieving full compliance with sub-principle 3.1 present appropriate examples of tools provided to customers that enable them to assess their own level of risk. For example, If P&C provides free use of the 'Svante' carbon calculator tool to its business customers.

There continues to be strong evidence of compliance with Principle 3.2 – 'Encourage customers to adapt to climate change and reduce their greenhouse gas emissions through insurance products and services'. An equal level of compliance was scored in comparison to the 2010 reporting period. As per last year, most members continue to point to coverage for domestic renewable as standard within the policy wording of home insurance products at no additional premium to achieve compliance against this sub-principle.

There have been some interesting developments by motor insurers across the industry this year with a focus on the use of telematic data in automotive navigation systems to inform eco-friendly driving as highlighted by The Co-operative Insurance. Likewise, Catlin, a member through the Lloyd's Market has launched 'Insurethebox', a car insurance that rewards positive, environmentally friendly driving behaviour. Other noteworthy examples of compliance include both Aviva and RSA who also offer car insurance that rewards fuel efficient driving and vehicles respectively. RBS claim to be one of the first to provide insurance for electric vehicles in the UK and similarly, both If P&C and Tryg offer electric car insurance in Denmark and Norway.

One noteworthy example from RSA and broker Aston Scott refers to the launch of Carbonsure, their new product aimed small and medium sized businesses that support carbon reduction strategies.

Case Study – RSA and broker, Aston Scott help commercial customers go green

In March 2011, Global insurer RSA and broker Aston Scott announced the launch of a new insurance and risk management initiative, Carbonsure following the development of the broker's idea during 2010. Carbonsure is a new product aimed at small and medium sized businesses that support carbon reduction strategies. It incorporates commercial insurance[1] cover with risk management advice, alongside carbon management. Carbon management[2] provides support to businesses looking to reduce their carbon impact. The scheme includes an initial carbon footprint assessment and a 20% discount on the first carbon purchase. Alongside carbon management, Carbonsure also provides cover for more energy-efficient equipment to replace old machines following a loss.

Notes:

[1] Commercial insurance cover is an all-encompassing product to cover key risks to business and business property including, property damage, business interruption, employer's liability and public liability and personal accident.

[2] Carbon management provided by The CarbonNeutral Company – issuers of CarbonNeutral certification, the global standard for carbon neutral certification.

This review period continued to build on the substantial increase in compliance with sub-principle 3.3 – 'Increasing the proportion of repairs that are carried out in a sustainable way through dialogue with suppliers and developers and manage waste appropriately', observed in the last reporting period. The majority of members made reference to their continued involvement in the ClimateWise Collaboration on Built Environment, embracing the fact that sustainable claims practices can be cheaper than alternatives.

It is also evident that the collaboration has and continues to provide insight for motor insurers to build towards greener practises as members show progress in understanding carbon footprints in each area of the claims fulfilment process. 'Repair over Replace' methodologies are widely reported with good examples from **Allianz, Aviva, Legal & General, RSA** and **The Co-operative Insurance**. This is often coupled with strong evidence of minimising motor supply chain waste within the claims handling process.

In this reporting period, members have evidenced more widely their focus on developing solutions for the reinstatement of buildings in line with greener regulations. **Aviva** for example, now offer sustainable heating systems in homes of clients that have been destroyed with no extra cost to the customer. **RSA** have launched a Greener Home Endorsement policy in Canada that allows customers the option of replacing damaged property with energy efficient or eco-friendly alternatives. One noteworthy example from **Aon** refers to their 'Trio' product which includes a sustainable reinstatement clause, which will replace damaged assets with more energy efficient ones, as standard in its cover. To date, several insurers have signed up to this product, a demonstration of how members can influence both clients and the insurance market. Even the smaller players in the industry are now highlighting their efforts in investigating opportunities for resilient reinstatement as documented by Ecclesiastical. However, it remains a concern in the current economic climate that green solutions are frequently more expensive to reinstate. Nevertheless, the industry is taking proactive steps in offering resilient reinstatement and providing advice and guidance for consumers after a claim.

Members continued to struggle to answer sub-principle 3.4 effectively. Where it was appropriate for members to consider how to use their expertise to help the developing world to understand and respond to climate risk, some were unable to demonstrate compliance. Similarly, members without a global footprint or operations that span developing markets only achieved compliance through an explanation that the sub-principle is not relevant. Likewise, life and pensions providers explain that their products relate to high net worth investors, primarily based in developed economies with little opportunities to use their expertise in projects such as weather risk insurance, or providing low-cost general insurance to the developing world.

Members were able to achieve partial compliance with sub-principle 3.4 by citing charitable behaviours such as establishing partnerships and purchasing CO2 credits for social purposes for example, building a school or a water treatment plant. A small group of reinsurers participate in the reinsurance of the Caribbean Catastrophe Risk Insurance Facility (CCRIF), an innovative public private partnership designed to provide funds rapidly to Caribbean governments in the event of a natural catastrophe. By supporting this effort, some members are helping to build resilience to the effects of climate risk in the Caribbean. To secure partial compliance, some members also make reference to stopping active investment into companies in the developing world being criticised over their poor corporate responsibility performance.

Members achieving full compliance referred to their active participation in the ClimateWise *Collaboration on Disaster Risk Reduction in the Developing World* and in the development, this year, of a compendium of insurance schemes. Other members were able to demonstrate compliance through using their core expertise to extend products into the developing world. Aviva, for example, have launched Dhan Sanchay, a universal life product in India suited to the needs of the local population and are expanding micro-credits in South America to Africa to promote economic and social development. Other members demonstrate consistency with previous years in their provision of cover for weather related risks, often in the agricultural sector protecting against reduced yields during the growing season.

Members with global footprints such as **RMS**, and those that have the access, knowledge and capabilities in working with government and public bodies in the developing world, such as Swiss Re, continue to demonstrate best practice in compliance.

Case Study: RMS work with public bodies in the developing world

RMS has been collaborating with the IFFCO (Indian Farmers Fertilizer Cooperative); the world's largest cooperative to design and implement a product/platform for pricing and portfolio management of agricultural insurance contracts for small farmers in India. The product will be compliant with agricultural insurance schemes and agricultural risk transfer in India. Additionally, it can be used for insurance product design and transparent agricultural risk transfer. The product was developed to affordably enhance insurance products for the farmers, and the commercial viability and sustainability for the risk transfer participants.

RMS is also collaborating with the Beijing Normal University (BNU), the Institute of Integrated Risk Management, to develop a product to model portfolio losses for several crops and perils that are uniquely applicable to two Chinese provinces. BNU has gathered and processed the agricultural, meteorological, and loss data, while RMS engage with model development and validation. The model, covering the Hunan province, is currently in advanced stages of development.

Recommendations

In line with last year's recommendations, we continue to see the need for greater integration of insight from research activities with the development of products and services and communication relating to climate risks. While we have seen some success in the development of corporate solutions, consumer demand still appears weak.

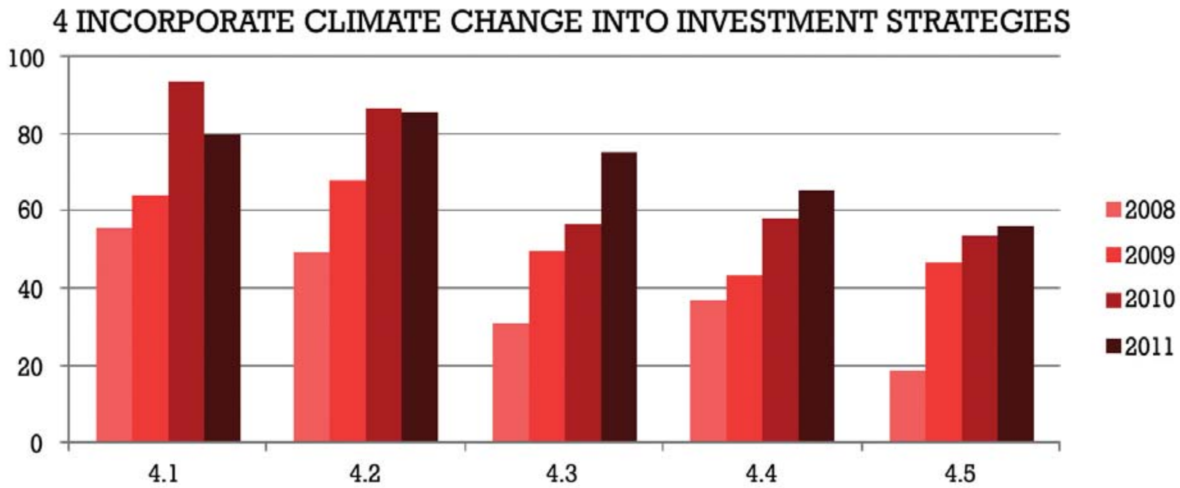
There do appear to be some significant barriers preventing the attractiveness and uptake of lower carbon solutions and resilient repairs and there is a need to address these barriers. There is an onus on the sector to lead the consumer on this journey; through education and communication. As identified last year, there remains a need to develop solutions that effectively communicate climate-related risks and reward mitigation and adaptation. These need to be made accessible and acceptable for the mainstream.

Principle 4: Incorporate climate change into our investment decisions

4.1 Consider the implications of climate change for company performance and shareholder value, and incorporate the information into our investment decision making.
4.2 Encourage appropriate disclosure on climate change from the companies in which we invest.

Introduction

Climate change is seen by most observers to be an important consideration in investment strategies. This year the insurance industry has seen increased focus on significant regulatory concerns such as Solvency II and as a result, investment strategies across the business are subject to major changes which appear to have taken priority over climate risk.



4.3 Encourage improvements in the energy-efficiency and climate resilience of our investment property portfolio.
4.4 Communicate our investment beliefs and strategy on climate change to our customers and shareholders.
4.5 Share our assessment of the impacts of climate change with our pension fund trustees.

Summary of findings

Principle 4 has maintained its position as the Principle that members find most difficult but overall compliance has marginally increased compared to last year. Within this Principle there have been two sub-principles that have moved fairly significantly. Firstly, sub-principle 4.1 'Consider the implications of climate change for company performance and shareholder value, and incorporate the information into our investment decision making' has seen a reduction in compliance of about 14%. There appears to be no single factor involved and taken at face value could hide the excellent progress being made by members. The second sub-principle to see a shift in compliance is sub-principle 4.3 'Encourage improvements in the energy-efficiency and climate resilience of our investment property portfolio' which has seen compliance increase by 18%. There has been some good progress here with more members scoring disclosure and compliance marks than before.

During this reporting year members have provided evidence that shows they are re-examining the way that climate risk is considered in relation to their investment strategy. Greater evidence that environmental, social and governance (ESG) factors are now being considered alongside mainstream company analysis and are used to inform financial models and portfolio construction has been provided by some. Members also reported that they seek to invest in companies that are positively managing their climate risk impact and carbon footprint by adopting energy efficiency measures and/or developing new clean technology solutions. Some are taking this further and are actively seeking companies that are 'behind the curve' in these areas so that they can work with them to develop ESG strategies, which in turn will generate improved company performance and returns. More evidence has been included this year which highlights how responsible investment or ESG investment professionals are working with mainstream portfolio managers. This is encouraging and an important step in being able to integrate this thinking so that decisions made include the consideration of such factors. On the other hand there are a couple of members with investment strategies that do not include climate risk considerations as they are not deemed to be a significant driver of financial value. It will be interesting to see how the new ClimateWise Collaboration looking at fixed income progresses, this aims to work towards mainstreaming low carbon investment in both owned and managed fixed income assets.

Sub-principle 4.2 achieved the highest level of compliance across the Principle at 86%. This level remains consistent with the previous year and demonstrates the ongoing importance members give to encouraging the companies they invest in to disclose information in relation to their impact on the environment. Many members demonstrate their commitment to disclosure through being signatories of external organisations such as UNPRI or Carbon Disclosure Project and encouraging investee companies to do the same. For some this is not enough and companies are now being asked to further demonstrate behaviour beyond disclosure of Greenhouse Gas Emissions (GHG). **Aviva** have supported CDP in facilitating the opportunity for companies to 'go beyond disclosure' in voluntary reporting and divesting in companies that do not comply with investors' requests. As highlighted in previous reviews and again in 2011, both **Lloyd's of London** and **The Co-operative** continue to actively work with companies on climate change issues which for a large number resulted in improved practices. Members continue to encourage good governance, transparency and risk protection amongst investments by exercising voting rights as and where appropriate. **Friends Life** for example encourage investee companies to provide explanations if their policies deviate from good practice, and also engage with companies both before the vote, to explain the standards they expect, and afterwards, to explain the reasons for any votes against management.

Members are increasingly looking at the energy-efficiency, climate resilience and performance of their investment property portfolio. This is evidenced by the fact that sub-principle 4.3 has seen the largest increase in compliance throughout all of the principles, up 18% to 75%. This increase has been driven through better reporting and disclosure of efforts in this area. Previous reports have highlighted the relative low performance of this sub-principle and members have sought to improve their scores in this area. Examples of good practice include: **Ecclesiastical** who undertake energy efficiency surveys on all new property purchases to encourage improvements across portfolio and have conducted a green benchmarking exercise through their property agents to quantify and compare environmental performance of buildings within their portfolio. This data has been used to target cost saving opportunities and reduce the environmental impact at portfolio level. **Legal & General** worked with external consultants Upstream Sustainability Services to implement a new Sustainability Risk Management Service in relation to their property portfolio. This initiative identified the top 24 properties which accounted for 80% of energy spend and resulted in reduction targets being put in place. **Lloyds Banking Group** has recently implemented a new sustainability strategy across their real estate portfolio. This involves a systematic process for identifying and implementing energy efficiency improvements across the portfolio.

Case Study: Legal & General Property (LGP) – Property Portfolio Strategy and Management

LGP have implemented a strategy which looks to go beyond the industry norm of 'greening' some of their property portfolio. The aim instead is to look at every one of the properties that they manage with a plan to make every one as efficient and sustainable as possible. Efficiency helps drive lower costs for occupiers and better returns for investors by avoiding unnecessary expenses arising from purchasing, disposal or regulation relating to resource use.

LGP realise that the built environment creates 40% of UK carbon emissions and 33% of landfill so their management of resources can have a significant impact on profitability as well as the wider environment.

Communicating investment strategy and beliefs to shareholders and customers (sub-principle 4.4) has again proved to be a difficult area for members to provide evidence but has seen an increase of 7% compared to last year. Members who do this well choose a variety of communication methods to share their investment strategy and the thinking behind their decisions including Annual or Sustainability Reports (**Lloyds Banking Group, Prudential, Santam** and **The Co-operative**), customer sections of websites and publications (**Friends Life and Ecclesiastical**) and public forums (**NFU Mutual and The Co-operative**).

Members are continuing to develop their strategies around influencing the companies they invest in to become more transparent in the disclosure of their activities which contribute to climate risk. Moving forward it would be interesting to see some members demonstrate a more proactive approach to encouraging investee companies to adopt better disclosure and reporting practices. Being a signatory of a collaborative group or organisation can only go so far when it comes to really demonstrating commitment and changing behaviour and those that are continuously challenging companies either through consistent dialogue, enforcing best practice guidelines or through the use of voting rights are progressing towards taking this area further. Leading members are expanding this approach beyond SRI funds to cover all asset classes.

Case Study: Allianz Pension Fund Trustee Activity

Allianz Insurance shared its assessment of the impacts of climate change for pension investments with Allianz Retirement and Death Benefits Fund at an investment meeting on May 2011. Trustees agreed to explore with fund managers how they are taking climate change impacts into account in investment decisions. They have also requested the Fund's administrators provide training for trustees in ESG issues (including climate change) related to their fiduciary duties.

Sub-principle 4.5 has seen a marginal increase in compliance this year although is still one which a number of members do not appear to be progressing. Only seven members achieved full marks for this sub-principle. The majority of evidence supplied in this section was in relation to indirect communication which is difficult to assess the impact of. There were a couple of examples of good practice which included **Allianz**, who shared their assessment of climate risk at an investment meeting (see case study box) and **Legal & General**, who have held pension fund trustee education seminars which include information about climate risk risks and the material nature of them.

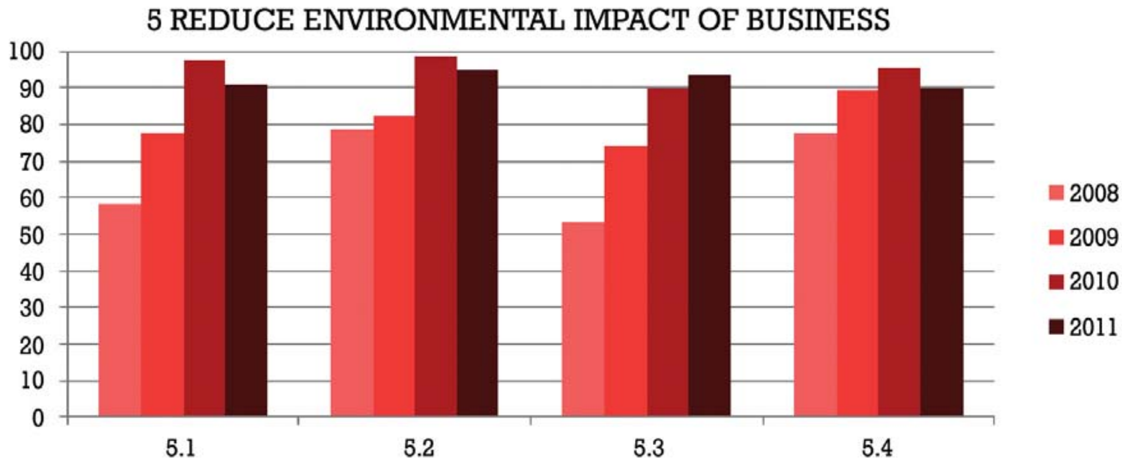
Recommendations

Although there has been progress in some of the sub-principles, principle 4 remains a challenging aspect of the ClimateWise Principles and therefore some of the recommendations outlined in previous years remain valid. There have been some very good examples of members who are establishing integrated strategies in relation to climate risk and investments both with external fund managers and internally managed operations. The level of dialogue has increased and widened on these matters but there remain a significant number of members who have not started these conversations nor look likely to consider it in the near future. This is in some part the result of the economic climate and regulatory burdens which are consuming much of the energy and efforts of insurance companies during this period and beyond but there are some who believe it is not a material consideration.

Communication of investment strategies to shareholders and customers is again an area which could see further improvement. This and the dissemination of climate change knowledge to pension fund trustees rely too much on passive, indirect methods of communication. This makes it difficult for the member to measure its impact as they have little or no idea as to what effect their communication is having on those that have a significant interest in the member's financial and reputational performance. A general point in relation to sub-principle 4.5 was that the level of reporting was not as good as other areas. Too many members used information included in previous reports without reference to any work that had been done during the relevant reporting period.

Principle 5: Reduce the environmental impact of our business

5.1 Encourage our suppliers to improve the sustainability of their products and services.
5.2 Measure and seek to reduce the environmental impact of the internal operations and physical assets under our control.



5.3 Disclose our direct emissions of greenhouse gases using a globally recognised standard.
5.4 Engage our employees on our commitment to address climate change, helping them to play their role in meeting this commitment in the workplace and encouraging them to make climate-informed choices outside work.

Introduction

It remains important for members to demonstrate that they are taking action to reduce the impact of their direct operations. However to ensure that the industry stays abreast of developments in other sectors and continues to drive performance in this area, it will be important that members begin to further their understanding of the indirect impacts of their operations, particularly their supply chain.

Summary of findings

Principal 5 continues to be an area where members perform well, although this year members have not demonstrated the same progress as they have in prior years. In particular members have struggled to show progress in relation to sub-principles 5.1 (engaging with suppliers) and 5.4 (engaging with employees). For many members policies and procedures to reduce the direct environmental impacts of their businesses are well established as part of their sustainability strategies. Now the challenge is to embed these strategies into core business operations where they can help drive improved performance, reduced costs and greater innovation.

Most members now have policies or procedures which place minimum sustainability criteria on potential suppliers, hence the high level of compliance in sub-principle 5.1. Those members performing less well generally struggled to show progress during the reporting period. In contrast members who performed particularly well could demonstrate that activity in this area had moved beyond risk management to engaging with suppliers, for example through understanding the carbon footprint of their supply chain, or working with suppliers to improve performance. Legal & General, for example, have a risk project manager who works directly with suppliers who fail to achieve a satisfactory status in respect of environmental issues.

Responsible sourcing of paper and electricity continue to be popular ways for members to demonstrate they are taking action in their supply chain. However, most members could improve the amount of quantitative data that is disclosed showing the proportion of key supplies which have been sourced sustainably. This would help demonstrate ongoing progress.

Case study - RSA value chain carbon foot printing on home

In 2010 RSA calculated the average carbon footprint of a MORE TH>N home insurance policy. The calculation, which included RSA's own operations as well as the operations of RSA's suppliers, found that the average carbon footprint of a MORE TH>N home insurance policy is equivalent to 8.4kg of CO_2. This analysis enabled RSA to set a product specific carbon reduction target: to reduce the carbon impact of the average home insurance policy by 15% by 2013. It also allowed RSA to identify where the greatest contributions were made and so effectively target carbon reduction strategies.

Consistent with prior years, members are very good at communicating how they are measuring, and seeking to reduce, the environmental impact of direct operations. However, there continues to be a few members who are less advanced in this area and face challenges implementing consistent reductions across all of their operations. A significant number of members do not disclose reduction targets, although some of these are in the process of developing or re-visiting targets.

Examples of leading practice include the calculation of normalised data (such as CO_2 emissions per employee) as well as disclosure of both short and long-term emission reduction targets.

Very few members disclose their approach to corporate offsetting. It is also worth noting that disclosure remains focused on the reduction of carbon emissions, with limited reporting of targets, or performance, in respect of waste management or water use, for example.

One area that nearly all members are focusing on is the reduction of emissions associated with air travel, with the most common solution being an increase in video-conferencing. Members have had varying success in this area with some members actually seeing an increase in air travel during the reporting period.

Understanding the environmental impact of the whole value-chain, including suppliers, is particularly pertinent for general insurers as they seek to reduce the environmental impact of their claims process. Last year we saw one member working to understand the carbon footprint of their supply chain. In the current year we have seen further progress in the calculation of the carbon footprint for the complete value-chain of a product. This has resulted in a product specific carbon reduction target.

There has been a small improvement in the number of members disclosing direct emissions using a globally recognised standard and overall there is a now a very good level of compliance. The majority of members are currently, or are planning to, disclose emissions data in their annual sustainability report, as well as online. The trend towards external verification of data continues with a small increase in the number of members obtaining external verification of reported data. Many members also disclose emissions data through participation in the Carbon Disclosure Project.

Initiatives to engage with employees are now fairly well established and include networks of employee volunteers, week or day long awareness raising events and communications through a variety of media. A limited number of members also provide environmental training for employees. Very few members report the take-up of initiatives or whether long-term behavioural changes have been achieved.

There is evidence that some members are beginning to consider employee engagement on climate change issues in the context of supporting core business operations, and not just seeking to help employees reduce their direct environmental impact. **Hiscox**, for example, provides an hour long seminar addressing the risk and opportunities associated with climate risk as part of their underwriter training programme. Similarly **Prudential** provides a sustainable education programme to all property professionals. Engaging with employees to help them understand how climate change may present risks and opportunities will help members demonstrate progress in this area, as well as helping to embed climate change strategies throughout the business.

Recommendations

Members have generally performed well in Principle 5, and have demonstrated good progress against recommendations made in the prior year. The challenge for members is to maintain momentum and further develop the sophistication of activities in this area, particularly focusing on aligning activities to support core business strategies.

In particular, it is important that members develop a more sophisticated understanding of the indirect impacts of their operations. Understanding the environmental impact of supply chains is a first step in this process, and is something that few members are currently doing. Once members have this information it will be possible for them to develop more sophisticated, and more targeted, reduction plans, for example by understanding the carbon footprint of specific products and achieve commensurate cost reductions.

There is also the opportunity for members to drive innovation through engaging with employees on how climate change presents both risks and opportunities to core business operations and strategies. To date employee engagement has mostly been focused on raising awareness of the issue and encouraging employees to reduce their direct impact. There is a risk that saturation point is approaching and employees will become disengaged with the issue. Members can maintain momentum and help drive business performance by helping employees to understand how climate change issues may influence business strategy, and what role they can play in their design and implementation.

As members look to increase the sophistication of activity in this area it is vital that they do not lose sight of the importance of quality reporting. In particular, disclosing targets and progress against these targets will help increase transparency and drive improved performance.

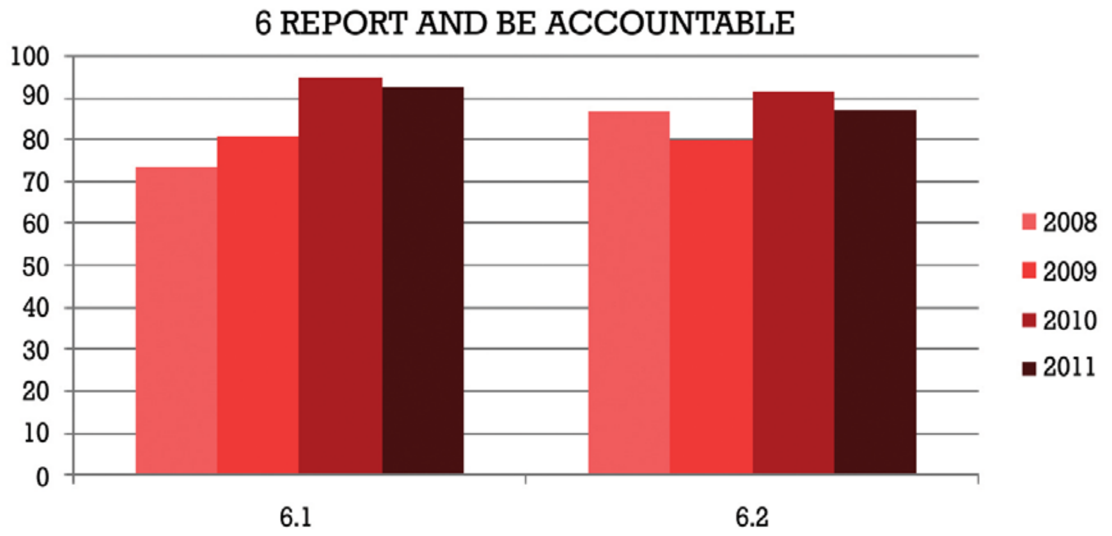
Principle 6: Report and be accountable

6.1 Recognise at company board level that climate risk has significant social and economic impacts and incorporate it into our business strategy and planning.

6.2 Publish a statement as part of our annual reporting detailing the actions that have been taken on these principles.

Summary of findings

Compliance across principle 6 remains high, at 90%. This represents a slight deterioration in compliance across the group, driven largely by a gap in reporting by one member and some difficulties in demonstrating year on year progression in a number of others. In addition, there were four members (2010 = 2) who did not participate in the interview stage where Principle 6 is typically discussed to obtain further clarity on approaches and policies in relation to governance and reporting.



Introduction

Principle 6 continues to be a vital element of the ClimateWise Principles. The role of leadership, accountability and conviction regarding climate risk, and corporate action to address it, is arguably more important than it has ever been in the face of wider regulatory and commercial challenges the sector has been exposed to in this period. Leadership is also critical in the continued absence of a global agreement from governments on emissions reduction targets and mechanisms. The role of the private sector, driven by corporate leaders, is going to be key in the transition to lower carbon economies.

For the most part, we see members taking reporting and accountability seriously. Responsibility for managing climate risk and sustainability strategies has reached the highest levels. Overall ownership rests with a variety of senior executives: CEOs, CROs, COOs, Chairmen, HR Directors and other Executive Committee roles who are evidenced as having management oversight for climate risk.

When assessing the integration of climate risk considerations within the core functions of members', we were looking for evidence that functions other than CR, CSR, Sustainability or Corporate Affairs were involved in the ClimateWise reporting process. There are number of ways in which this can manifest itself: direct reported evidence in the submission, participants from core functions on the interview call, or in the case of Hiscox, evidence that responsibility for the ClimateWise report is allocated to different functions:

While there is a good level of evidence that board level sponsors for climate change strategy exist and senior representatives are speaking publically about commitments and challenges relating to climate risk, members are less good at providing explicit examples that provide 'evidence for incorporation of climate risk into business strategy and planning' in line with sub-principle 6.1.

Case Study – Hiscox – Reporting Responsibilities

Ownership of Climate Wise principles are assigned to the following senior business managers:-
Principle 1 – UK Finance Director
Principle 2 – Deputy Company Secretary
Principle 3 – Director of Marketing & Direct Business
Principle 4 – UK Managing Director
Principle 5 – Property Services manager
Principle 6 – Deputy Company Secretary

The above is an interesting approach. For members without well resourced CR functions or those new to the ClimateWise reporting process, sharing the responsibility in such a way could be beneficial. For other members looking to more effectively embed consideration of climate risk in the business, this type of approach could be helpful.

This reporting period saw members evidencing participation by corporate leaders in the ClimateWise Progress Meeting hosted by HRH Prince of Wales on 23 March 2011. In line with reporting guidance, members also provided evidence of senior representatives speaking at external events on the issues and membership and participation of external bodies, such as ClimateWise and in the case of Tokio Marine, The Geneva Association. Truett Tate, the Board member who leads on climate risk and environmental sustainability issues, represents Lloyds Banking Group on the Prince of Wales's Corporate Leaders Group on Climate Change. Swiss Re reference their presence at the World Economic Forum Annual Meeting 2011 in Davos, with the CEO Stefan Lippe hosting a roundtable discussion on global risks related to food security, climate risk and natural catastrophes.

We have seen evidence of the governance structures to facilitate the incorporation of climate risk, **Lloyds Banking Group** for example, established a new Environmental Steering Group, chaired by the Group Property Director in the reporting period. This steering group reports to the board and the Corporate Responsibility Steering Group. There are also many statements relating to the commitment to integrate climate risk into strategic decision making. However, there are fewer strong examples of the outcomes of strategic integration provided directly in responses to sub-principle 6.1. That is not to say they do not exist, evidence of new product development outlined in principle 3 is an example of this and **Friends Life** provide evidence of the engagement of senior risk and operational teams in strategic planning relating to climate risk (although they report this under Principle 1 – Lead in risk analysis).

Case Study: Friends Life – Analysing and embedding sustainability trends

In October 2010 Friends Life commissioned Forum for the Future to perform a study of sustainability trends (including climate change) in relation to four potential impact areas: customers, investments, products and operations. The results of this study are shared with senior risk and operational teams. Forum for the Future also hosted a workshop to discuss the potential implications of the research findings. The output is an embedded materiality matrix. Any issues that are deemed material and outside risk appetite are then escalated into the group risk and operational management process. This is an ongoing review process and the next edition will be completed in 2012.

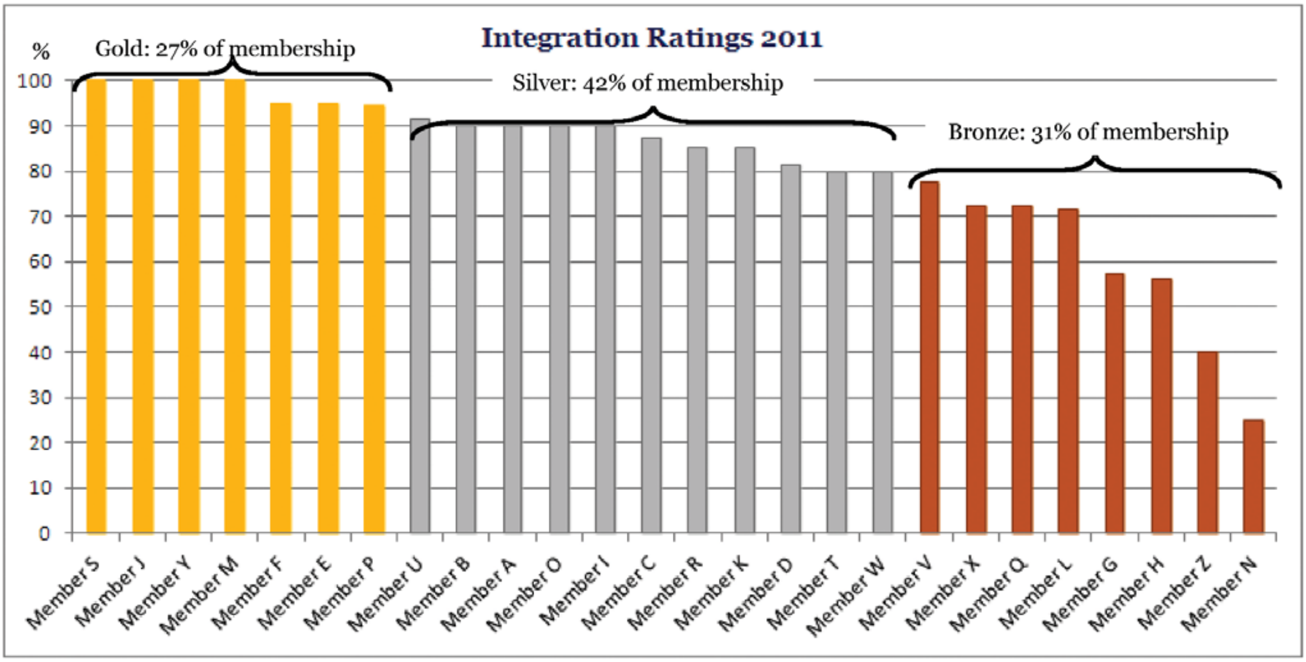
Sub-principle 6.2 -'Publish a statement as part of our annual reporting detailing the actions that have been taken on these principles' remains an area of high compliance. There does remain a spectrum of effort regarding transparency of action on climate risk and the ClimateWise Principles despite the increasing demand from stakeholders for transparency and reporting and the importance that leaders place on integrating reporting on climate risk with standard reporting media. As observed last year, a small proportion of members produce a well structured, separate report specifically outlining efforts to address the ClimateWise Principles and publish this document on public websites. Others refer to ClimateWise membership within CR reports and on CR websites and also guide the reviewer to these reports to demonstrate compliance with sub-principle 6.2. Some make no public reference or do not publish a report outlining efforts to address climate risk. The latter must be considered to be behind the curve.

Recommendations:

While evidence of governance structures and procedures to integrate and embed climate risk into corporate planning process and strategy development is strong, we do see a missed opportunity for members to demonstrate the real impact on decision making and core business activity as none cross reference activity in other principles within sub-principle 6.1.

Members' ClimateWise submissions vary widely in size, format and style and approach to public reporting is also varied. We would encourage the ClimateWise Managing Committee and members to agree a standard format for reporting and encourage greater public disclosure specifically in response to ClimateWise Principles.

Integration Analysis



Across multiple industries, the insurance sector included, there is a clear direction of travel away from standalone, siloed corporate responsibility activities to strategic, embedded sustainability. Not many have achieved this. However, the next phase in the maturity of corporate responsibility will see leaders develop and benefit from business models that fully integrate sustainable practices. Effective integrated reporting is part of this process.

The 2010 ClimateWise Principles Independent Review concluded that although compliance scores among the membership had advanced to commendably high levels, only a small proportion of members were able to provide best-in-class evidence that they were making the strategic links across the principles and clearly articulate how the activities were integrated into core functions and strategy.
In response, the ClimateWise Managing Committee requested an additional assessment to determine how members are demonstrating an integrated approach to managing climate risk.

The integration assessment developed by PwC focuses on two areas:

1. Statement of strategic intent: The existence of a strategic statement recognising the relevance of climate risk to member's core operations and the existence of a plan outlining, at a strategic level, how members plan to respond to the associated risks and opportunities. The sources investigated for such statements included the ClimateWise submissions, Corporate Responsibility reports, Annual Reports and company websites.

2. Evidence of integration with core functions: Evidence that members have taken action across all relevant core business functions (pricing, product development and investment management) as demonstrated by compliance scores across the following ClimateWise sub-principles:

Sub-principle:
1.3 Use research and improve data quality to inform levels of pricing, capital and reserves to match changing risks.

3.1 Inform our customers of climate risk and provide support and tools so that they can assess their own levels of risk.

3.2 Encourage our customers to adapt to climate change and reduce their greenhouse gas emissions through insurance products and services.

3.3 Increase the proportion of repairs that are carried out in a sustainable way through dialogue with suppliers and developers and manage waste material appropriately.

4.1 Consider the implications of climate change for company performance and shareholder value, and incorporate this information into our investment decision-making process.

4.4 Communicate our investment beliefs and strategy on climate change to our customers and shareholders.
6.1 Recognise at company board level that climate risk has significant social and economic impacts and incorporate it into our business strategy and planning.

Limitations of this evaluation:

Analysing the integration of climate risk in the core functions of an insurer is not a straightforward process, particularly using external public sources. The methodology above uses the responses to ClimateWise Sub-Principles that closely relate to core functions, and public statements relating to strategy as proxies to indicate integration. Questions relating to integration were also posed during the scoring interview process. However, this analysis is limited in the depth to which it can reflect the internal realities of how climate risk is considered in strategic planning and in day-to-day functional operations. The scoring includes a subjective judgement made by experienced sustainability analysts.

It nevertheless should provide members with an additional lens through which to consider their level of maturity in response to climate risk.

Scoring

Strategic Intent: A total of six points was available for strategic intent. Members were scored on the existence of these statements as well as a subjective judgement regarding the breadth of the statements, and the extent to which the statements explicitly addressed climate risk. The existence of a strategic statement linking climate risk to core business operations could achieve a total of three points. A further three points were available for strategic statements explaining how climate risk is managed.

Evidence of integration with core functions: For the seven relevant sub-principles, members were scored using their compliance score (two points per sub-principle).

The total score was calculated as a percentage so that members whose scope of operations meant they were exempt from certain sub-principles were not scored on these sub-principles.

The range of scoring for the Gold, Silver and Bronze banding are as follows:
95% to 100% = Gold
80% to 94% = Silver
79% and Under = Bronze

Integration analysis conclusions:
The majority of ClimateWise members are making progress in linking climate risk to strategic statements and providing evidence of activity in key functions of the organisation. Just over three quarters achieve either gold or silver ratings in this analysis (having achieved a total score of 80% or above) while only two members scored below 50%.

However, the above performance is largely driven by compliance with sub-principles. Just over half of all members provided a comprehensive statement that identified climate risks and opportunities and where these affected the core business operations (such as pricing, product development and risk levels) and 45% supported this statement by articulating how the member is responding to these risks across the organisation.

Only 7 members, around a quarter (27%) of the membership, achieved a gold rating; these members can clearly demonstrate their integrated approach to climate risk across core business operations. Gold ranked members consistently provided a strong external strategic statement relating to climate change, how they affect core functions and how the organisation is addressing the issues in those functions. Those that achieved gold ranking also supported the strategic commitment with full or near full compliance across all the relevant sub-principles, thus evidencing that the member's strategic commitment was supported by action in the core functions.

Silver ranked members generally performed well across all criteria. One area that in particular prevented many silver ranked members from achieving gold was their ability to demonstrate that responses to climate risk had been effectively embedded into investment activities (sub-principles 4.1 and 4.4). Compared to gold ranked members, those that rated silver also did not score as strongly in the rating of the strategic statements explaining how climate risk is managed in the context of core functions.

There was no single factor which contributed to members in the bronze category performing less well. Most members in this category did not score well on the existence of a strategic statement specifically addressing climate risk, or the existence of a company-wide plan for responding to climate risk. Bronze ranked members were also more likely to have only achieved partial compliance across a range of sub-principles.

This analysis has demonstrated that there are some members who are demonstrating best-in-class integration and that at a tactical level, most are taking action to embed climate risk into core functions. However, there is more that members rated at silver and bronze (0ver 70% of the membership), can do to articulate a clear understanding of the strategic importance of climate-related risks and opportunities as relevant to the core functions of an insurer. There is also a need to take this further and articulate where and how the organisation is addressing the issues in those functions.

ClimateWise Collaborations

The ClimateWise Collaborations were established following the second ClimateWise Independent Review when members identified 5 key climate change challenges where progress was most likely to be successful if action could be taken at the industry or system level. The value of the ClimateWise Collaborations was highlighted throughout the 2010 review by members referencing their participation in these groups in their reports. Following on from this, the ClimateWise Managing Committee recommended that a section be provided in this year's report highlighting the work and progress that is being undertaken by these collaboration groups.

The following collaborative groups bring together a wide range of stakeholders including experts from within member businesses, industry bodies, governments, civil society and academia. The collaborations focus on deepening understanding and delivering ways forward in concurrence with each ClimateWise Principle:

Principle 1: Lead in risk analysis - *Collaboration on Protection, Health and Extreme Weather*
Challenge: How might changing weather extremes i.e. heat waves, flooding affect Health and Protection providers and their customers?

As we continue to experience more frequent, and more severe extreme weather events, ClimateWise members saw scope for improving opportunities to understand implications for health and to increase measures to protect customers. With the assistance of a world expert from the London School of Hygiene and Tropical Medicine this collaboration group has been investigating whether it is possible to quantify the temporal variation in protection insurance claims and their association with seasonal and day-to-day variation in weather conditions. This is underpinning work on scenario building and the development of partnerships with the health sector with the objective of improving public health protection.

Principle 2: Informing Public Policy - *Collaboration on Disaster Risk Reduction in the Developing World*
Challenge: How can insurers and governments work together to ensure people in the developing world are less vulnerable to climate change impacts?

ClimateWise members identified a need to work more in assisting communities in the developing world to manage and respond to climate change impacts through appropriate adaptation actions. Work is being carried out with the Grantham Research Institute on Climate Change and the Environment at the London School of Economics to better understand the key components that do, or would, make selected schemes both commercially viable and deliver physical risk reduction outcomes. A unique compendium of over 100 existing schemes from across the developing world where insurers are in some way involved in reducing vulnerability has already been compiled.
This work will be used to contribute to a practical dialogue with national Governments and international financial institutions to inform the design and development of future disaster risk reduction schemes.

Principle 3: Supporting climate awareness among our customers - *Collaboration on Loss Prevention*
Challenge: How can behavioural barriers to effective climate adaptation be addressed where insurance markets are already well developed?

Lessons learnt from case studies where insurers have been involved in promoting adaptation compiled in the report 'Adapting to the Extreme Weather Impacts of Climate Change' highlighted a need to enhance customer understanding of risk reduction measures. This collaboration will focus on improving understanding of risk perception and behaviour change in relation to climate change, so as to be able to better incentivise adaptive behaviours.

Principle 4: Incorporating climate change into investment strategies - *Collaboration on Fixed Income Investments*
Challenge: What are the new risks and opportunities faced by fixed income investors as a result of climate change?

The International Energy Agency estimates that by 2020 $190bn of additional capital investments will be required in order to mitigate dangerous climate change. As significant investors - the UK insurance industry alone manages investments amounting to 24% of the UK's net worth - ClimateWise members identified an interest in working towards mainstreaming low carbon investment in their fixed income portfolios. This focus was identified due to its importance to insurers with long term liabilities and the relative lack of attention this asset class has received so far (compared to equities and property). Work is involving addressing barriers to making low carbon investments and will explore the implications of financial regulation such as Solvency II, one of the most comprehensive pieces of legislation to affect the insurance industry in 30 years, on opportunities for low carbon investment.

Principle 5: Reducing the environmental impact of business - *Collaboration on the Built Environment*
Challenge: How can insurers cost-effectively reduce the environmental impact of the claims process?

ClimateWise members commissioned a report to understand how the environmental impacts of servicing property claims could be reduced. This recommended the need for voluntary Sustainable Claims Management (SCM) guidelines to raise awareness and uptake of sustainable material usage and repair techniques across the industry. Work is underway to develop guidelines though further analysis of where the greatest impact can be made. The collaboration has worked with The Carbon Trust to carry out carbon foot-printing for a number of representative claims scenarios. Members are now validating these with their own experience in order to make recommendations as to what can be done in a more sustainable way.

Member feedback for the 2011 reporting period

Members who have been supporting these collaboration groups continued to reference their work in their reports this year and also shared their thoughts and experiences during the interview process. With the ClimateWise Collaborations in place, there is a broad consensus that members are better able to make a concerted and joint effort in tackling the challenges of climate risk, through working with governments and establishing leading practice and benchmarks. Members cite the importance of this collective action in supporting them to better implement the ClimateWise Principles.

The majority of members either actively participate in, or are aware of the Collaboration on Built Environment and the associated report issued in 2010. Members believe this collaboration has a lot of traction in the industry and highlighted its usefulness in providing an industry benchmark through establishing voluntary Sustainable Claims Management (SCM) guidelines. This is one example of a useful tool that the collaboration has generated for encouraging sustainable business practices.

Members participating in the Collaboration on Loss Prevention felt it is developing positively; members are now keen to see movement in the follow up actions following the release of the 'Adapting to the Extreme Weather Impacts of Climate Change 2010' report which is especially topical due to its relevance for COP17 in Durban.

Members involved in the Collaboration on Protection, Health and Extreme Weather outlined the challenge in making progress due to the lack of available data and the long term nature of the issues associated with health.

Members participating in these groups highlighted their value from a research perspective. They spoke of the depth of research being conducted and in areas that would not necessarily have been researched if they were not part of the collaboration. Although the research is not always operationally essential in the short term, the benefits cited to date were in the sharing of knowledge especially around best practice and benchmarking, and also being better prepared for possible future scenarios. It was highlighted that while there is good progress being made across the collaboration groups; specifically in exploring options and identifying key lessons for the industry, there is a limit to the ability of these groups themselves to take action. This is where the role of members becomes fundamental in moving recommendations and actions forward.

Appendix A – Detailed description of the methodology used in this review.

Phase 1 – Detailed review of ClimateWise submissions

The structure and design of the reports submitted this year were similar to previous years in terms of detail and layout. There continued to be variation in approaches and some reports were better constructed and written than others. In addition there were entire sections of previously submitted reports re-submitted which did not always contain relevant information or demonstrate year-on-year progression.

As in previous years nearly all members submitted a standalone report with some members preparing a branded published document with introductory pieces from the member's leader for climate risk. ClimateWise do not mandate that members produce a report so it was encouraging to see members using this opportunity to record their achievements against the principles in a relatively formal manner. There were some members though who submitted disjointed and incomplete reports and this is an area which needs to be improved moving forward.

When reviewing the reports it was easier to evaluate the responses to the principles with those members who had structured their reports along the lines of the sub-principles as the evidence was clearer to identify and gaps were easier to spot. As noted earlier in the main body of this report, a change to the reporting requirements and additional guidance for the layout of these reports may be necessary to ensure these issues are addressed.

Phase 2 – Scoring

Scoring Changes for 2011

The scoring methodology for this year has seen some changes. Disclosure and compliance have been merged together to create a single, overall compliance score. There is now only one point awarded for disclosure which was awarded to members who provided an appropriate level of detail highlighting their approach to each element of the principle. As a result the award for partial disclosure given in previous years has been removed.

There was therefore three points available for each sub-principle: one point for Disclosure and two points for Full Compliance. Partial Compliance is scored one point. Where a member provided an Explanation response, zero points were awarded but the total points available were reduced by three. This meant that the total points available for a member were either 75 or lower (depending on how many Explanation answers are given). A percentage score was then calculated using the number of points awarded divided by the total points available for that member.

Previous years scores had to be re-calculated to incorporate these changes. Partial disclosure was given 0.5 points. The scores allocated are summarised as follows:

Three Points - Disclosure and Full Compliance
Two Points - Disclosure and Partial Compliance
One Point - Disclosure and No Compliance
Zero Points - No Disclosure and No Compliance
E - Explanation

It should be noted that following the member interviews two additional scoring criteria were considered to reflect supplementary information provided by the member:

Two Points – No Disclosure and Full Compliance
One Point – No Disclosure and Partial Compliance

Disclosure

ClimateWise provide all members with guidance for reporting which includes details of disclosure requirements and specific examples of compliance for each of the 25 sub-principles. We studied all submissions and noted where a member had provided sufficient disclosure for each sub-principle. It was important to the reviewing team that not only did the member explain their progress but also outlined their approach as and when appropriate. Where a member explained that the principle was not relevant to their business this was marked as "explanation provided" and scored zero points as described above.

For each sub-principle, the response was added to a table together with commentary from PwC. This commentary was to be used for the interview phase whereby we needed to discuss marginal decisions or case studies. Only the responses submitted by the member's report were used to determine disclosure.

Compliance

Compliance was assessed using the same method of scoring as previous years in that 'full', 'partial' and 'explanation' scores were awarded. Only information provided in the member's submission was evaluated with further clarification being noted for discussion during the interview phase.

Phase 3 – Identifying and evaluating case studies

During the submission review phase, potential case studies were identified for each of the members. The use of case studies is a positive way to illustrate actions taken by members to showcase interesting and thought leading activities that have taken place during the review year. These examples were discussed with each appropriate member in the first instance to acquire additional information and seek high level approval for its consideration.

Phase 4 – Distribution of one-page tentative scores

A scoring template was created for each member showing their tentative score against each of the six principles and highlighted where scores were in relation to the previous year. Also included were markers to identify areas where we needed further clarification. See Appendix D for an example of the template used.

Phase 5 – Discussions with members

We gave all members the opportunity to participate in telephone conversations to discuss our review, potential case studies and their general thoughts on the issue of climate risk within the insurance industry and to obtain feedback on any aspect of the ClimateWise process. We took part in 22 telephone conversations with designated representatives which resulted in extremely meaningful discussions and added further insight to each member's submission.

Phase 6 – Reassessment of scores

As a result of the discussions that took place with members some scores were amended to reflect clarity and additional information where this had been provided. As a result of these conversations, scores changed with an overall improvement of 6% across the membership.

Phase 7 – Individual member detailed feedback and benchmarking report

Following the reassessment of scores where appropriate, a three-page document was produced and submitted to each member. These documents included a breakdown of the final scores for disclosure and compliance. For the first time an assessment of the level of integration was also included with examples of where this behaviour had been identified. In addition, detailed feedback was provided in appropriate areas which we felt would be of benefit to the member. Finally we provided peer group benchmarking analysis to give members a better understanding of their position.

Phase 8 – Report Production

A report was prepared using all of the information and analysis that had been accumulated and submitted to ClimateWise.

Appendix B – Members

Organisation	Geography	Key business lines	Size (Market Capitalisation £m*)	Size (number of employees)
1 Allianz Insurance(UK)	UK	Non-life	31,544	1,001-10,000
2 Aon	US, International	Reinsurance broker (non-life)	9,258	1,001-10,000
3 Association of British Insurers (ABI)	UK	Trade association (all lines)	n.a	51-200
4 Aviva	UK, International	Non-life and life	9,427	10,001-50,000
5 Chartered Insurance Institute (CII)	UK, International	Professional body (all lines)	n.a	51-200
6 Chartis Insurance	UK, International	Non-life and life	n.a	10,001-50,000
7 Ecclesiastical	UK	Non-life and life	n.a	1,001-10,000
8 Fireman's Fund	US	Non-life	n.a	201-1,000
9 Friends Life	UK	Life	n.a	1,001-10,000
10 Hiscox	UK	Non-Life	n.a	1,001-10,000
11 If P&C	Nordic & Baltic	Non-Life	n.a	1,001-10,000
12 Legal & General	UK, International	Non-life and (mainly) life	6,171	1,001-10,000
13 Lloyd's of London	UK	Marketplace for all lines	n.a	+ 50,000
14 Lloyds Banking Group	UK	Non-life and life	24,535	+ 50,000
15 NFU Mutual	UK	Non-life and life	n.a	201-1,000
16 Prudential	UK, International	Non-life and (mainly) life	15,554	10,001-50,000
7 RBS Insurance	UK, International	Non-life and life	14,576	+ 50,000
18 Risk Management Services (RMS)	UK, International	Risk modelling firm	n.a	1,001-10,000
19 RSA	UK, International	Non-life	4,000	10,001-50,000
20 Santam	South Africa	Non-life	1,363	1.001-10,000
21 Swiss Re	International	Reinsurer (all lines)	11,942	201-1,000
22 The Co-operative Insurance	UK	Non-life and life	n.a	1,001-10,000
23 Tokio Marine & Nichido Fire Insurance	Japan	Non-life	12,512	10,001-50,000
24 Tryg	Denmark	Non-life	2,132	1,001-10,000
25 Willis Re	International	Reinsurer (all lines)	4,011	10,001-50,000
26 Zurich (UK)	UK	Non-life and life	20,524	10,001-50,000

*where applicable, as at October 2010, at Group level
Employee base is used purely as a high-level proxy for size to contextualise analysis.
Categorisation used the ranges: 1-50; 51-200; 201-1,000; 1,001-10,000; 10,001-50,000; 50,000+

Appendix – C – Ranking Table

Member Name	1.1	1.2	1.3	1.4	1.5	2.1	2.2	2.3	2.4	2.5	3.1	3.2	3.3	3.4	4.1	4.2	4.3	4.4	4.5	5.1	5.2	5.3	5.4	6.1	6.2	Overall Score	2011 Ranking	2010 Ranking	Change	Integration Award
Member S	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	100.00	1	2	↑ 1	Gold
Member B	3	3	3	3	3	3	3	3	3	3	3	3	3	E	3	3	3	2	3	3	3	3	3	3	3	98.61	2	=10	↑ 8	Silver
Member D	3	3	3	3	3	3	3	3	3	3	3	3	3	3	E	E	E	E	E	3	3	3	3	3	2	98.33	3	=5	↑ 2	Silver
Member J	3	E	3	E	3	E	3	3	E	E	E	E	E	E	3	3	3	3	2	3	3	3	3	3	3	97.92	4	17	↑ 13	Gold
Member U	3	3	E	E	3	3	3	3	E	E	3	3	E	3	E	E	E	E	E	3	2	3	3	3	3	97.78	5	4	↓ 1	Silver
Member F	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	2	2	3	3	3	3	3	3	3	97.33	=6	1	↓ 5	Gold
Member A	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	1	3	3	3	3	3	3	3	97.33	=6	14	↑ 8	Silver
Member Y	3	2	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	2	2	3	96.00	=8	8	←→	Gold
Member E	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	2	2	2	3	3	3	3	3	3	96.00	=8	12	↑ 4	Gold
Member M	3	2	3	2	3	3	3	3	2	E	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	95.83	10	=5	↓ 5	Gold
Member P	3	3	3	3	3	3	3	3	3	E	3	3	E	3	3	2	3	2	2	3	3	3	3	3	3	95.65	11	=5	↓ 6	Gold
Member V	3	3	3	2	3	3	3	3	3	3	3	3	2	E	3	3	3	3	2	3	2	3	3	3	3	94.44	12	21	↑ 9	Bronze
Member G	3	3	3	3	3	3	3	3	3	3	3	3	E	3	E	E	E	E	E	1	3	3	2	3	2	92.98	13	9	↓ 4	Bronze
Member O	3	3	3	3	3	3	3	3	3	3	3	3	2	3	2	3	E	3	0	3	3	3	3	3	2	91.67	14	16	↑ 2	Silver
Member I	3	3	3	3	3	3	3	2	3	3	3	3	2	E	2	3	3	3	1	2	3	3	3	2	3	90.28	15	15	←→	Silver
Member C	3	3	3	3	3	3	3	3	3	3	3	3	3	0	E	E	E	E	2	2	3	2	2	3	3	88.89	=16	=10	↓ 6	Silver
Member R	3	3	3	3	3	3	3	3	3	3	3	3	3	E	2	3	2	0	0	3	3	3	3	3	3	88.89	16	22	↑ 6	Silver
Member K	3	2	3	3	3	2	3	2	2	2	3	3	2	3	2	3	3	3	3	3	3	2	3	3	2	88.00	18	20	↑ 2	Silver
Member L	3	3	3	0	3	3	3	3	3	0	3	3	E	3	E	E	E	E	E	3	3	3	2	3	2	85.96	19	N/A	N/A	Bronze
Member T	3	3	3	1	3	3	3	3	3	3	3	2	3	3	2	1	1	2	1	3	3	3	3	3	3	85.33	20	23	↑ 3	Silver
Member W	3	3	3	3	3	3	3	3	3	2	3	3	3	2	0	0	0	0	0	3	3	3	3	3	3	77.33	21	N/A	N/A	Silver
Member Z	3	3	3	3	3	1	1	3	1	0	2	2	1	3	2	3	3	1	1	3	3	3	3	3	3	76.00	22	N/A	N/A	Bronze
Member H	2	2	1	1	2	2	2	3	2	2	3	E	E	2	2	3	3	3	1	3	2	2	3	2	2	72.46	23	24	↑ 1	Bronze
Member X	2	2	3	2	2	2	3	1	0	0	3	2	2	E	3	3	2	2	2	3	3	3	2	3	2	72.22	24	19	↓ 5	Bronze
Member Q	3	2	3	3	1	2	1	2	1	3	3	3	3	0	1	3	0	0	0	1	3	2	1	3	3	62.67	25	25	←→	Bronze
Member N	2	2	2	2	2	2	2	2	2	2	2	2	2	0	2	0	0	0	0	2	2	2	2	0	0	48.00	26	18	↓ 8	Bronze

Note: the letter coding for each member (e.g. Member X) above has been allocated on an entirely random basis to preserve the anonymity of the individual ClimateWise members, and should not be assumed otherwis

Appendix D – Details of Compliance by Sub-Principle

		Full Disclosure & Compliance	Full Disclosure & Partial Compliance*	Full Disclosure & No Compliance*	No Disclosure & No Compliance	Explanation
1. Lead in risk analysis						
1.1	Support and undertake research on climate change to inform our business strategies and help to protect our customers' and other stakeholders' interests.	23	3	0	0	0
1.2	Support more accurate national and regional forecasting of future weather and catastrophe patterns affected by changes in the earth's climate.	18	7	0	0	1
1.3	Use research and improve data quality to inform levels of pricing, capital and reserves to match changing risks.	23	1	1	0	1
1.4	Evaluate the risks associated with new technologies for tackling climate change so that new insurance products can be considered in parallel with technological developments.	16	4	2	2	2
1.5	Share our research with scientists, society, business, governments and NGOs through an appropriate forum. imate Adaptation'	22	3	1	0	0
2. Inform public policy making						
2.1	Work with policy makers nationally and internationally to help them develop and maintain an economy that is resilient to climate risk.	19	5	1	0	1

		Full Disclosure & Compliance	Full Disclosure & Partial Compliance*	Full Disclosure & No Compliance*	No Disclosure & No Compliance	Explanation
2. Inform public policy making cont...						
2.2	Promote and actively engage in public debate on climate change and the need for action.	22	2	2	0	0
2.3	Support work to set and achieve national and global emissions reduction targets.	21	4	1	0	0
2.4	Support Government action, including regulation, that will enhance the resilience and reduce the environmental impact of infrastructure and communities.	16	4	2	2	2
2.5	Work effectively with emergency services and others in the event of a major climate-related disaster.	15	4	0	3	4
3. Support climate awareness amongst our customers						
3.1	Inform our customers of climate risk and provide support and tools so that they can assess their own levels of risk.	23	2	0	0	1
3.2	Encourage our customers to adapt to climate change and reduce their greenhouse gas emissions through insurance products and services.	20	4	0	0	2
3.3	Increase the proportion of repairs that are carried out in a sustainable way through dialogue with suppliers and developers and manage waste material appropriately.	13	6	1	0	6
3.4	Consider how we can use our expertise to assist the developing world to understand and respond to climate change.	14	2	0	4	6

		Full Disclosure & Compliance	Full Disclosure & Partial Compliance*	Full Disclosure & No Compliance*	No Disclosure & No Compliance	Explanation
4. Incorporate climate change into our investment strategies						
4.1	Consider the implications of climate change for company performance and shareholder value, and incorporate this information into our investment decision-making process.	11	8	1	1	5
4.2	Encourage appropriate disclosure on climate change from the companies in which we invest.	17	1	1	2	5
4.3	Encourage improvements in the energy-efficiency and climate resilience of our investment property portfolio.	12	4	1	3	6
4.4	Communicate our investment beliefs and strategy on climate change to our customers and shareholders.	9	6	2	5	4
4.5	Share our assessment of the impacts of climate change with our pension fund trustees.	7	6	4	5	4
5. Reduce the environmental impact of our business						
5.1	Encourage our suppliers to improve the sustainability of their products and services.	21	3	2	0	0
5.2	Measure and seek to reduce the environmental impact of the internal operations and physical assets under our control.	22	4	0	0	0
5.3	Disclose our direct emissions of greenhouse gases using a globally recognised standard.	21	5	0	0	0

		Full Disclosure & Compliance	Full Disclosure & Partial Compliance*	Full Disclosure & No Compliance*	No Disclosure & No Compliance	Explanation
5. Reduce the environmental impact of our business cont...						
5.4	Engage our employees on our commitment to address climate change, helping them to play their role in meeting this commitment in the workplace and encouraging them to make climate-informed choices outside work.	18	6	1	1	0
6. Report and be accountable						
6.1	Recognise at company board level that climate risk has significant social and economic impacts and incorporate it into our business strategy and planning.	22	3	0	1	0
6.2	Publish a statement as part of our annual reporting detailing the actions that have been taken on these principles.	18	7	0	1	0

Appendix E – One page score template

[Member Company]
PwC Review of ClimateWise Principles Reports 2011

ClimateWise
REDUCING THE RISK FOR TOMORROW

Introduction

This summary provides the final results of PwC's review of [member name] performance against the ClimateWise Principles. The performance noted has been prepared on the basis of the 2011 ClimateWise submission and is scored in both Disclosure and Compliance, while also noting the percentage change relative to 2010 (where applicable). The scoring methodology has changed slightly this year with 1 point only for Disclosure. We have indicated areas where we perceived gaps in the submission or have further questions. In the course of a scheduled interview, we would like to discuss [member name] performance generally and specifically the areas indicated. On the basis of this interview, we will review any further information or material discussed and prepare a final summary score and feedback report. The feedback will provide, by principle, an analysis of the reporting relative to all members and relative to previous reporting (where possible) as well as an analysis of the strengths and areas for development in individual and peer group reporting.

Principle	Sub-Principle		2011 Score
1 Lead in risk analysis	1.1	Support and undertake research on climate change to inform our business strategies and help to protect our customers' and other stakeholders' interests.	
	1.2	Support more accurate national and regional forecasting of future weather and catastrophe patterns affected by changes in the earth's climate.	
	1.3	Use research and improve data quality to inform levels of pricing, capital and reserves to match changing risks.	
	1.4	Evaluate the risks associated with new technologies for tackling climate change so that new insurance products can be considered in parallel with technological developments.	
	1.5	Share our research with scientists, society, business, governments and NGOs through an appropriate forum.	
2 Inform public policy making	2.1	Work with policy makers nationally and internationally to help them develop and maintain an economy that is resilient to climate risk.	
	2.2	Promote and actively engage in public debate on climate change and the need for action.	
	2.3	Support work to set and achieve national and global emissions reduction targets.	
	2.4	Support Government action, including regulation, that will enhance the resilience and reduce the environmental impact of infrastructure and communities.	
	2.5	Work effectively with emergency services and others in the event of a major climate-related disaster.	
3 Support climate awareness amongst our customers	3.1	Inform our customers of climate risk and provide support and tools so that they can assess their own levels of risk.	
	3.2	Encourage our customers to adapt to climate change and reduce their greenhouse gas emissions through insurance products and services.	
	3.3	Increase the proportion of repairs that are carried out in a sustainable way through dialogue with suppliers and developers and manage waste material appropriately.	
	3.4	Consider how we can use our expertise to assist the developing world to understand and respond to climate change.	
4 Incorporate climate change into our investment strategies	4.1	Consider the implications of climate change for company performance and shareholder value, and incorporate this information into our investment decision-making process.	
	4.2	Encourage appropriate disclosure on climate change from the companies in which we invest.	
	4.3	Encourage improvements in the energy-efficiency and climate resilience of our investment property portfolio.	
	4.4	Communicate our investment beliefs and strategy on climate change to our customers and shareholders.	
	4.5	Share our assessment of the impacts of climate change with our pension fund trustees.	
5 Reduce the environmental impact of our business	5.1	Encourage our suppliers to improve the sustainability of their products and services.	
	5.2	Measure and seek to reduce the environmental impact of the internal operations and physical assets under our control.	
	5.3	Disclose our direct emissions of greenhouse gases using a globally recognised standard.	
	5.4	Engage our employees on our commitment to address climate change, helping them to play their role in meeting this commitment in the workplace and encouraging them to make climate-informed choices outside work.	
6 Report and be accountable	6.1	Recognise at Company Board level that climate risk has significant social and economic impacts and incorporate it into our business strategy and planning.	
	6.2	Publish a statement as part of our annual reporting detailing the actions that have been taken on these principles.	

Legend

The shaded boxes below represent the scores awarded for each sub-principle together with how the score is achieved. An E is given where explanation is provided as to why a particular sub-principle is not applicable. Arrows denote a change relative to the institution's performance in 2010.

- 3 Points (Disclosure & Full Compliance)
- 2 Points (Disclosure & Partial Compliance)
- 1 Point (Disclosure & No Compliance)
- 0 Points (No Disclosure or Compliance)
- E (Explanation)

Movement v 2010

Tentative Score

The left hand box represents the tentative score given out of a total of 75 points from the 25 sub-principles (where an E has been awarded the total points available is reduced). The right hand box provides an indication of the relative percent change from 2010.

86%	-6%

pwc

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ClimateWise is facilitated by the University of Cambridge Programme for Sustainability Leadership (CPSL), which works with business, government and civil society to build leaders' capacity to meet the needs of society and address critical global challenges. CPSL's seminars, leadership groups and partnerships with those who make or influence decisions are designed to transform public and private sector policies and practices and build greater understanding of our interdependence with one another and the natural world. CPSL is a member of The Prince's Charities, and HRH The Prince of Wales is its patron. **www.cpsl.cam.ac.uk**

For more information, contact the ClimateWise Secretariat:

51 Gresham Street
London EC2V 7HQ
Tel: +44 20 7216 7530
info@climatewise.org.uk
www.climatewise.org.uk

ClimateWise
REDUCING THE RISK FOR TOMORROW

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PROGRAMME FOR SUSTAINABILITY LEADERSHIP

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