

# CLIMATEWISE PRINCIPLES



An initiative facilitated by



CLIMATEWISE IS A GLOBAL INSURANCE INDUSTRY LEADERSHIP GROUP TO DRIVE ACTION ON CLIMATE CHANGE RISK, FACILITATED BY THE UNIVERSITY OF CAMBRIDGE'S PROGRAMME FOR SUSTAINABILITY LEADERSHIP (CPSL)





# Contents

Chairman's foreword	03
Introduction	05
Executive summary	07
Overview and recommendations	09
The ClimateWise Principles	16
Principle 1: Lead in risk analysis	19
Principle 2: Inform public policy making	24
Principle 3: Support climate awareness amongst customers	30
Principle 4: Incorporate climate change into our investment decisions	37
Principle 5: Reduce the environmental impact of our business	43
Principle 6: Report and be accountable	49
Intergration analysis	53
Appendix A: Detailed description of the methodology used in this review	57
Appendix B: Members	60
Appendix C: Ranking table	61
Appendix D: Details of compliance by sub-principle	62
Appendix E: One page score template	65

## Chairman's foreword



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

The cost to peoples' lives and property caused by Atlantic Hurricane Sandy provides a timely reminder of weather related risk and the role insurance can play in facilitating recovery from extreme events. It also reminds us of the need to deepen understanding of how changes in climate might impact on our societies and customers in the years ahead.

Anticipating changing climate risk was of course the driver behind the formation of ClimateWise five years ago. The initiative started with the principles for business action reviewed here. It is no surprise, but nevertheless welcome, that the level of compliance by members across the principles has increased to its highest level ever in 2011/12.

What have we done in our 5th year? 2012 has seen the UK launch of Guidance on Sustainable Claims Management; we are pleased that this initiative, led by ClimateWise members has gained the support of the British Damage Management Association (BDMA). In Boston in the US we have co-sponsored with CERES (a sustainable economy network) the first of several workshops between insurers, city authorities and infrastructure providers to consider city resilience. And we have partnered with the International Finance Corporation, part of the World Bank Group, to improve resilience through a weather based micro-insurance project in Zambia.

Avoiding risk is better than adapting to risk and ClimateWise is also focussed on helping the transition to a low carbon economy. This year we have given a boost to our mitigation efforts through engaging with energy companies, including Shell and Statoil, and the Carbon Capture and Storage (CCS) Association. The focus has been to explore how insurance can help risk management challenges faced by CCS in order to help bring this technology to commercial reality.

In addition to our contribution as risk managers insurers have a serious contribution to make as investors. At \$25 trillion insurers control more than 11% of global financial assets and together with pension funds, another industry which makes long term promises to pay, can help with the low carbon investments needed. ClimateWise members are continuing to explore how best to incorporate low carbon decision making in insurance and reinsurance investment strategies.

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These collaborations indicate ClimateWise's growing global reach. We have complimented this with partnerships with insurance associations in South Africa and Brazil, with the aim of progressively sharing experience between insurance markets.

Sharing best practice within the industry is good but the challenge of managing climate risk requires a much broader ambition. In a ClimateWise Thought Leadership piece this year, Ian Kirk the Chief Executive of the Santam Insurance Group in South Africa, highlighted the importance of insurers acting as 'global risk connectors'. He evidenced the value of ecosystem resilience in mitigating disaster risk, including climate change risk.

As ClimateWise marks its 5th anniversary there remains much more for ClimateWise to do in mainstreaming this type of thinking. The principle of shared value has been highlighted by Professors Porter and Kramer at Harvard as the next business transformation. They claim shared value is not social responsibility but a new way to achieve economic success.

Looking forward to the next 5 years ClimateWise will seek to increase wider industry action on climate risk and create shared ways of addressing this risk between business, government and civil society.

## Introduction

#### A CHALLENGING INDUSTRY OUTLOOK

The insurance sector continues to operate in a challenging environment. Many members have reflected to us on the pressures their businesses are facing now and have faced during the Fifth ClimateWise reporting period (July 2011 to June 2012). The continued repercussions of the economic crisis, in particular economic instability in Europe as well as capital pressures, a low-interest-rate environment and increasingly complex regulatory risk (such as the EU's harmonisation of insurance regulation, Solvency II) are all factors. Customer expectations are also growing with an increase in on-line buying amongst the younger generation of customers and the increased intensity of competition that this brings with it.

## INCREASING RISK RELATING TO CLIMATE CHANGE IMPACTS AND NATURAL CATASTROPHES

At the same time, the impacts of climate change are growing and become unavoidable for all segments of the insurance industry. Munich Re's Topics Geo 2012 issue states that "with economic losses amounting to some US\$ 380 billion, 2011 has been the most expensive natural disaster year to date, far surpassing the previous record (US\$ 220 billion) set in 2005. At US\$ 105 billion, insured losses also reached a new high". Swiss Re's estimates show that since the early seventies global insured losses specifically attributable to climate-related disasters have jumped from an annual US\$ 5billion to approximately US\$ 60 billion in 2011.

#### **OPPORTUNITY AND CLIMATEWISE RELEVANCE**

There is clearly a need for insurers to look at their risk modelling techniques to embrace forward looking future risk projections, and take account of both the possible creeping risks such as water scarcity or biodiversity loss, and the more inherent systemic nature of climate change and its global effects. This environment of economic uncertainty, a changing customer demographic and an industry wide shift in risk exposure relating to climate change impacts and natural catastrophes does however present opportunities for those insurers who are well prepared.

In addition to streamlining costs and seeking to improve capital and operating efficiency, leaders are responding by looking for growth opportunities in new markets and driving innovation in new products and services. By responding to climate change adaptation and mitigation, identifying and responding to new customer needs, the leading companies are using performance in this area to differentiate themselves from their peers and demonstrates the longer term relevance of the ClimateWise Principles to its members. This year's reporting and interviews demonstrate that members are in many cases aware of and are responding to this opportunity with a range of new products and research activity playing a vocal role in helping to shape public policy, while also managing their own impacts on the environment.

This is the Fifth Independent Review and a good opportunity to look at the progress of the initiative and assess how members have progressed on with the issues contained within the six Principles.

#### **THE 2012 CLIMATEWISE PROCESS**

The ClimateWise Managing Committee appointed PwC as the independent reviewer for this fifth report.

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 their 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. A full description of the methodology can be found in Appendix A.

This year, the review considers the submissions from 27 members, the submission from the Lloyds Market being consolidated into one report for Lloyd's of London. It also incorporates first time submissions from three new members; Brunel, Cunningham Lindsey and Marsh.

## Executive summary

The ClimateWise Principles were established in 2008 to enable leading insurers to work together to respond to the myriad risks and opportunities of climate change, aiming to reduce the overall risks faced by economies and societies. Now in their fifth year members' performance against the criteria set across 25 different areas has continued to improve and adapt to changing circumstances with a number of members demonstrating leadership behaviours. The initiative itself has gained a prominent voice and a position, such that the insurance industry's efforts to adapt and mitigate the impacts of climate change are recognised as influencing key stakeholders.

Arguably work by members over the last five years has set a benchmark for what should be achieved in different areas. In particular there has been:

- Significant advances in research and data used for modelling risk contributing to a better understanding of the areas where climate risk will impact economic activity;
- Engagement with policy makers highlighting where investments in mitigation and resilience could save costs later;
- Examples, particularly in the built environment and motor sectors, for new products and services that can drive changes in customer behaviour;
- Concerted efforts to investigate and research sustainable claims, influencing suppliers and ensuring that responsibility for reducing their carbon footprint moves along the supply chain;
- A move towards strategic responsibility for this whole agenda residing at the top level of the organisation.

But there remain significant challenges and barriers to further progress. In particular in:

- Mainstreaming new insurance products and services that mitigate the risks associated with new technologies for tackling climate change;
- Considering the role of insurance as a means of protecting those most at risk to the impacts of climate change in the developing world;
- Establishing investment strategies which incorporate environmental and social considerations.

This independent review is focused on ascertaining the level of compliance against the six ClimateWise Principles. The overall finding of the analysis of the 27 member reports this year shows that the level of compliance has increased to its highest ever level of 92%. This achievement, in spite of the external pressures, and with changes to the membership in the year, continues to demonstrate that members as a whole maintain a strong commitment to adapting to and mitigating climate change.

It is also the result of an improved level of disclosure. This year has seen a narrowing of the gap between those members who are able to report with greater depth and quality, and those who

last year struggled to achieve high levels of compliance. As a result there are fewer cases of zero compliance with any given Principle than ever before. Several members have directly referred to their performance last year as being key factors in focusing their efforts to improve their scoring this year. Given the high levels of compliance from a growing number of members it may now be an opportune time to look at expanding the scope of some of the sub-principles' qualifying requirements to recognise greater performance being achieved by leading members.

There are many cases of good practice throughout the report. Principle 1 - leading in risk analysis - was an area in which members demonstrated that new or ongoing research initiatives are becoming more business as usual to address the risks and impacts of climate change, and are being integrated into core operations and business strategies.

There has been a substantial level of progress in Principle 4 where members are incorporating climate change and other environmental criteria into their investment strategies. This is now something that all members, where relevant, are articulating. There is still some way to go in communicating these strategies to the wider stakeholder community including pension fund trustees.

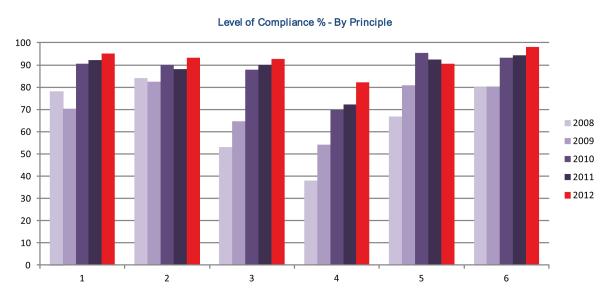
It is again a key feature of the reporting that members continue to struggle to provide commentary describing year-on-year progress on previously communicated initiatives and activities. We also continue to see a lack of strong strategic linkages across the Principles. As reported in the last two reviews, those members 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 change is an integrated, embedded part of core activity. This is particularly true for research informing product development and/or investment activity. Similarly, we see a good level of disclosure relating to governance structures and high level, board responsibility for managing climate change. What we see much less of is evidence that the executive oversight is leading directly to climate change being incorporated into core business strategy and planning.

This year we have again included an assessment of the level to which activity in these areas is embedded across the core operations of the member organisation. Overall there has been significant progress in the number of members linking climate risk to strategic statements and providing evidence of activity in key functions of the organisation. The number of members achieving gold rating has increased to nearly half of all members and at the other end of the scale no member scored below 50% (compared to 2 in 2011).

The number of member's demonstrating integration is encouraging although when compared to certain other sectors, such as extractives, agriculture, food, energy or water utilities and consumer goods, the insurance industry is relatively underdeveloped in its response to climate change. However, this is to be expected as the drivers for action in these sectors – regulation, supply chain resilience, stakeholder pressure, cost efficiency for example – are much greater, and leading players in the insurance sector – including ClimateWise members - are closing the gap. Although the response to climate change as an issue has made significant progress in the industry, there is less evidence of widespread action by insurers on other environmental and social issues, such as biodiversity loss, water scarcity, food security, poverty and human rights. If one takes a systemic approach to these interconnected issues, it is clear that much remains to be done to really understand and incorporate these wider risks and opportunities into business models. In this respect, ClimateWise must act for its members to understand and respond to a broader set of sustainability challenges.

## Overview and recommendations

The chart below illustrates the positive progress that has been made during the first five years of the ClimateWise Initiative. The leaders continue to set the standard and their efforts are well represented in this report. It should also be noted that the number of members scoring zero points has diminished and this clearly demonstrated that the gap is narrowing as members continue to refine their strategies to improve performance in these areas.



**FIGURE 1:**PRINCIPLE BY PRINCIPLE COMPARISON AT GROUP LEVEL (2008-2012), % LEVEL OF COMPLIANCE.



#### Principle 1: Lead in risk analysis

#### >>> Overview

Continues to be one of the areas in which members demonstrate a strong level of performance consistent with previous years. The insurance sector needs to be able to accurately assess and – where markets allow – price the risks associated with climate change, incorporating them into their business strategies. To do this, insurers must invest in research that enables them to make informed strategic decisions. It is extremely positive that given the various external pressures placed on insurance companies during this period that members have continued to invest in research and this is borne out by the increase in compliance and examples of good practice.

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' is for the fifth year running the area of Principle 1 that members find most difficult. However, there has been an increase on last year's performance showing that members are making progress in this area by removing some of the barriers with new product and service offerings.

#### >>> Recommendations

There are numerous examples of new and ongoing research that is being carried out and members are beginning to articulate how this is being integrated into core business activity. There is more that can be done in this area even allowing for commercial sensitivities; therefore this would be an area for greater disclosure and clarity.

There have been good examples of how research has been used to improve data quality in the reporting against sub-principle 1.3 'Use research and improve data quality to inform levels of pricing, capital and reserves to match changing risks'; however, for full compliance, members need to demonstrate how their research links to informing levels of pricing, capital and reserves.

Sub-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' is an area where few members demonstrate full compliance. Efforts to understand and mitigate the costs and risks in insuring new technologies should be an area for continued focus.



#### Principle 2: Inform public policy making

#### >>> Overview

Performance is now at its highest level since ClimateWise was launched with scores improving against all sub-principles except 2.3 'Support work to set and achieve national and global emissions reduction targets,' which showed a slight decrease. Senior leaders within the sector continue to be vocal on climate change, with a number of examples of CEO-led public engagement and a move towards more active involvement and leadership in industry and cross-sector initiatives. The Rio+20 summit on sustainable development in June 2012 has provided a prominent platform for this work and and it will be interesting to see if momentum is maintained next year.

Members are engaging with international, national and local government, as well as consumer organisations, issue-based working groups, the private and third sectors. Performance on sub-principle 2.4 'Support Government action, including regulation that will enhance the resilience and reduce the environmental impact of infrastructure and communities' increased substantially in average score from 85% to 96%. This is due to improved disclosure of activities and also partly due to the slight change in member composition this year improving the scores.

Sub-principle 2.5 'Work effectively with emergency services and others in the event of a major climate-related disaster' still remains a challenge for a number of members to respond to. Several cite a lack of disaster events in the territories where they operate. Leaders however used this section to report their activity in relation to either business continuity planning that can take place to prepare for future events or work that they have done to support NGO or disaster relief fundraising.

#### >>> Recommendations

The quality of reporting would be improved by a greater follow-though on outcomes from previous years' activity and ways in which external engagement is being reflected in changes to internal policy and practices. A theme from last year's recommendations has continued where some members have difficulty disclosing their exact role and what their particular contribution was.

Members should continue in their efforts to set meaningful internal emissions reductions targets. The prospect of mandatory reporting will increase pressure to do this. Members should also use their voice and data to inform and influence the wider national and international target setting processes.

Sub-principle 2.5 (see above) needs to be interpreted more widely to include ongoing work with disaster response organisations including planning and business continuity work. Consideration should be given to amending the guidance for reporting here to provide greater clarity so that more members can report on relevant activity during the next reporting period.



# Principle 3: Support climate awareness amongst our customers

#### >>> Overview

Principle 3 has continued its year-on-year improvement and members recognise that customer adaptation and mitigation represents significant opportunities and risks to their businesses. Only 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' saw a decrease in compliance this year. Members continue to use traditional communication methods such as paper-based customer magazines for providing information on their level of risk related to climate change and practical advice on precautionary steps to take in the event of extreme weather. The analysis found and increasing number of members who are developing and using tools to help their customers identify and assess their own levels of risk.

This year saw stronger evidence of compliance with 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'. Many members continue to outline initiatives they are taking to make the claims process more environmentally friendly, such as introducing online claims handling to reduce paper usage and transport and the introduction of more fuel-efficient fleets to service customer claims. Members also reference their involvement in working groups, such as the ClimateWise Sustainable Claims Working Group.

#### >>> Recommendations

Members should examine how they influence their customers towards more sustainable behaviours. Although members are making progress in terms of how they are educating and communicating the advantages of low carbon and climate-resilient solutions, more work could be done to further incentivise the uptake of adaptation and mitigation activities.

Whilst members are increasingly reporting evidence of insurance products aimed at helping customers to understand and mitigate their exposure to the effects of climate change, there is very little data provided regarding the effects of these in terms of, for example, the increase in uptake of these products or their financial impact on the business itself. Moving forward, members could look to use valuation techniques to measure the impact of these initiatives in social, environmental, and economic terms. This will help members to identify which services and products achieve the best outcomes and better demonstrate to key stakeholders the positive impact of these.

We were also encouraged by examples of members utilising social media to engage with their customers. While the potential to directly sell products via platforms such as Twitter may be limited, social media is still a useful method of providing and signposting information across large numbers of stakeholders. We therefore expect to see increased numbers of examples in future.



# Principle 4: Incorporate climate change into our investment decisions

#### >>> Overview

Although overall performance remains relatively low there has been a significant increase in the level of compliance this year with an overall increase of from 72% to 82%. Climate change and other environmental, social and governance (ESG) issues continue to be seen as an important considerations in investment strategies for many members although there remain a few members who do not see commercial value in such issues.

Disclosure of activity has greatly improved and some areas have seen real progress during the year with better describing investment strategies and communicating them to customers and other stakeholders. Members continue to demonstrate a range of approaches to encouraging appropriate disclosure on climate change from the companies in which they invest ranging from being signatories to Carbon Disclosure Project (CDP) to providing commentary on engagement with investee companies.

#### >>> Recommendations

Although Principle 4 remains the area which most members have difficulty in achieving full compliance, nearly all areas have seen an increase in the level of compliance this year. Responses range from those who are demonstrating leadership and best practice behaviours to those just starting to consider these factors in their investment strategies. Barriers to progress such as obtaining wider support remain, and not everyone shares the view that incorporating climate change into investment decisions is important for long-term profitability and growth.

There are a number of members who do have investment strategies which consider ESG criteria but are still not in a position to be able to disclose or communicate this to their stakeholders including investors, shareholders and customers. Recommendations from previous years remain valid and members are asked to demonstrate a more proactive approach to encouraging investee companies to adopt better disclosure and reporting practices on these issues and to be able to share investment strategies and viewpoints with customers, shareholders and pension fund trustees.

Dialogue between responsible investment teams and core investment teams is continuing in a number of members but remains an area for improvement. There remains a wide distance between those members who are engaged on this issue and those who are not.



# Principle 5: Reduce the environmental impact of our business

#### >>> Overview

There was an overall decrease in performance in this area, reflecting in some cases an overall lack of progress demonstrated by members in the reporting period. This is the second year running that there has been a reduction in the level of compliance with sub-principle's 5.2 'Measure and seek to reduce the environmental impact of the internal operations and physical assets under our control' and 5.3 'Disclose our direct emissions of greenhouse gases using a globally recognised standard' being most affected.

Although there were a high number of members who achieved full compliance with sub-principle 5.3 there were 3 members who scored zero points for not disclosing their carbon emissions data, which is a minimum requirement. Of those that did disclose their approaches to reducing carbon emissions, a number of members outlined their short and long-term emissions reduction targets. There were only limited examples of members engaging their employees on climate change regarding its impact on core business operations, for example, the development of new insurance products and services.

#### >>> Recommendations

There appear to be challenges across all aspects of this principle which are preventing some members from demonstrating clear progression on a year-to-year basis. Most members have established environmental procurement policies and require potential new suppliers to demonstrate compliance with their criteria. More are now prepared to reassess suppliers at renewal stage but many members remain silent on how they assess suppliers' performance so that procurement changes can be made.

Members also continue to demonstrate strong evidence of initiatives targeted at engaging employees in reducing the company's, and their individual, direct environmental footprint. However, there remains a distinct lack of examples where members have engaged employees regarding the impact of climate change on core business strategy and how it may influence product and service offerings in future.

It would be good to see existing programmes extended to cover core business activity, for example, by running an internal competition where employees generate new ideas for products or services which combat the impact of climate change. Helping employees to understand how climate change presents both risks and opportunities to the company's core operations will allow the employees to approach the subject more strategically, further embed sustainability-related initiatives and engage employees in the issue. It can potentially lead to greater levels of innovation regarding product and service development in the long run, as well as improving employee engagement, talent management and productivity.



#### Principle 6: Report and be accountable

#### >>> Overview

This Principle has again seen a very high level of compliance at 98%. All members submitted a report this year demonstrating their progress against the six ClimateWise Principles. Some of these reports are extremely impressive and a great deal of time and thought has gone into putting these documents together to showcase the good work that has been done. The majority of members make their ClimateWise reports public on their own websites and some even report on their annual year-on-year progress demonstrating real transparency and accountability.

There have also been many good examples of members' board level sponsorship of climate risk, discussions using networks and new governance structures. Nearly all members have identified senior leaders who have responsibility for implementing strategies to ensure the organisation remains in a position to adapt to and mitigate climate and other environmental risks.

#### >>> Recommendations

It is not always clear from the reporting how close senior leaders are to the activities being reported. It is accepted that most members have a Board level sponsor for recognising that climate risk has a material impact on their business but reporting could be improved by sharing in more detail the specific nature of this oversight role.

Although all members have submitted a report setting out their performance and activity against the ClimateWise Principles the standard of reporting and detail provided has again been varied this year. Reporting can be improved by labelling and addressing performance and activity against each principle and sub-principle clearly, consistently and in a structured manner.

There are still numerous references to activities or events that have happened in previous years with no commentary on their relevance to the current reporting period. Members should clearly state where there is no information to report and be open so that barriers to further progress can be communicated and understood.

## 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 climaterelated 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.

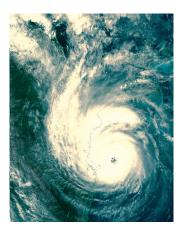
# Principle 5: Reduce the environmental impact of our business

- 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.

# Examples of member activity across the principles



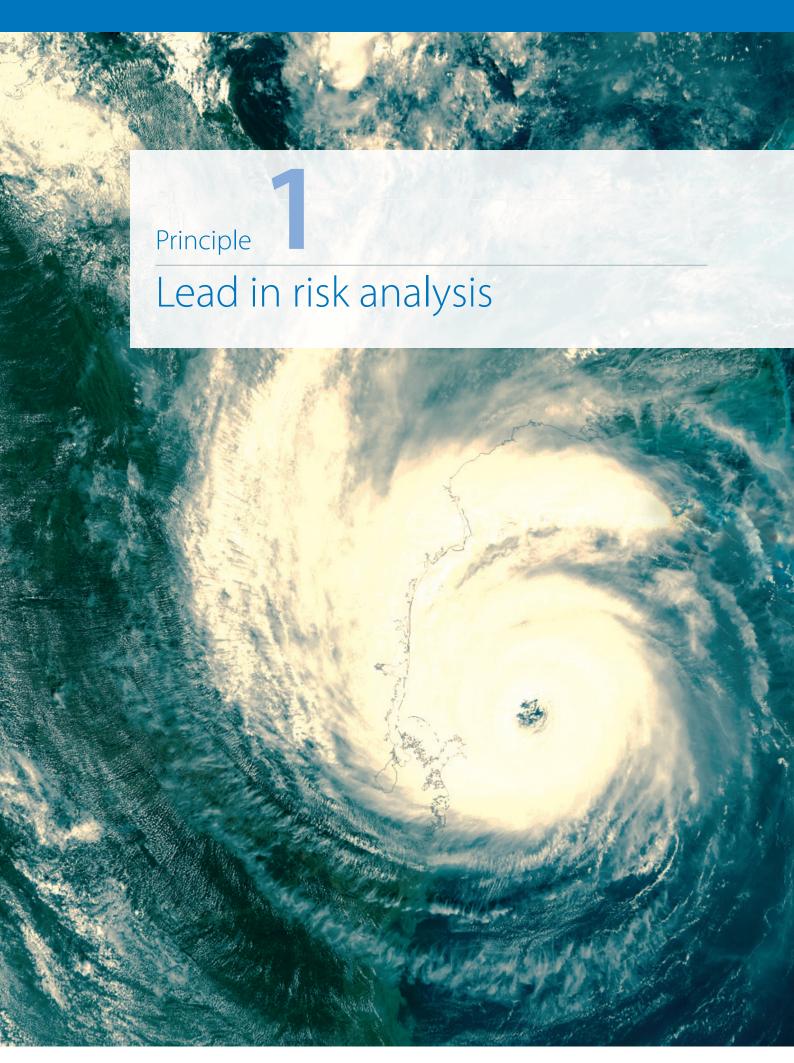






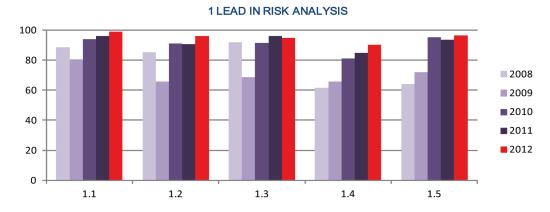






# Lead in risk analysis

- 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.



#### **INTRODUCTION**

In the current economic environment where budgets for expenditure in some areas are being reduced, it is good to see that members have continued to invest extensively in research. Insurance companies continue to proactively progress their understanding of the risks and opportunities presented by climate change, with many demonstrating use of this research to inform core business strategies and, where markets permit, pricing levels. An overall improvement from last year shows that members are actively demonstrating practical implementation of their risk analysis functions.

#### **SUMMARY OF FINDINGS**

Overall compliance against Principle 1 has improved slightly from last year. 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' is for the fifth year running the area of Principle 1 that members find most difficult. We note a 5% increase on last year's performance, thus it is evident that members are making progress in this area with new product and service offerings. Sub-Principle 1.3 'Use research and improve data quality to inform levels of pricing, capital and reserves to match changing risks' was an area that saw a 3% decrease in the level of compliance. Although nearly all members commentated on active use of research to ensure that pricing, capital and reserves matched changing levels of risk, few specified how research influenced these areas, which is something required for full compliance.

Sub-principle 1.1 has again demonstrated how ongoing and new research has contributed to the development of business strategies. A continued theme from last year has been the members' work with universities. **RMS**' work on climate change adaptation with both Wharton School and the LSE, alongside **Willis**' research with 14 universities and organisations, as well as **Tokio Marine**'s risk analysis work with various universities are all examples. The funding of PhDs to carry out research has been continued this year and has included research involving the risk of landslides in mountainous regions (Lloyd's of London), hurricane risks (**Hiscox**) and flooding costs (**Cunningham Lindsey**).

Topics of research this year have been varied ranging from research in the renewable energy markets (**Allianz**) to shale gas extraction (**The Co-operative Insurance**) and dissembling of end-of-life vehicles (**If P&C**). Following two unprecedented cloudbursts in Copenhagen (2010 and 2011) and increased demand in the organisation as a result of these, **Tryg** used their own research to inform pricing levels. There was also a similar project in Norway involving water waste and quality. Overall, the most prevalent area of research is that surrounding flooding in the UK. This may be due to the uncharacteristically high levels of flooding in the reporting year, although it is too early to say what the exact impact of this has been in modelling and pricing future risk.

**Swiss Re** also collaborated on a report with the Economist which was valuable in helping partners in industry get a broader understanding of climate risks. Further work with Wharton Business School was also published this year, assessing the national flood insurance programme which covers flood loss administered through a US federal programme compared to that provided by the private sector.

#### Case Study: CII and the 100 year mark

As a mark of its centenary year, **The Chartered Insurance Institute** (CII) has produced a series of reports examining the future risks likely to impact the insurance industry and beyond. The Future Risk series of reports focus on demographics, socio-economic changes, technology, and climate change. Contributions from leading experts inside and outside of the industry, as well as expert analysis conclude that insurers must do more to incentivise adaptation to climate risk through pricing strategies and discounts. Furthermore, they must work closely with the government and other professionals to raise awareness and improve understanding. These reports have been published on the company website, the specially designed centenary year website, and were circulated to over 100,000 members and other stakeholders across the public and third sectors.

Responses to sub-principle 1.2 have demonstrated members' support for and investment in more accurate national and regional catastrophe patterns. **Lloyd's of London**, as an example, has published a new report with the UK Meteorological Office examining the latest scientific research on North Atlantic hurricanes and elaborates on how ocean conditions and the atmospheric climate result in hurricane formation. Additionally, Hiscox has supported Mapflow's forecasting capability by providing insight and data, which has now been extended to include both the UK and Ireland which will help to determine customer profiles and marketing.

Overall, Sub-Principle 1.3 attracted strong evidence of the use of research to improve data quality, for example **Lloyd's of London** has been involved in the Integrated Assessment of Geoengineering Proposals project which is aimed at addressing the gaps in knowledge about the effectiveness and side effects of geoengineering schemes. However, some members do not, even at a high level, allude to how this data is used to inform pricing, capital and reserves. This is likely to be because of the commercial sensitivity surrounding such strategic decisions, or the fact that at this relatively early stage, the linkages are unclear. Furthermore, a few members mention that research is being continued from previous years, but have not specified how it is being improved or expanded. By contrast, **Santam** has demonstrated how knowledge and data have been exchanged through partnerships which ultimately inform risk assessment capabilities and pricing decisions. Project results have been aligned with the company's risk appetite and it is aiming to integrate the data with systems and commence implementation in the near future.

Members have demonstrated good development against sub-principle 1.4 from previous years with good examples of new products and services on offer. **Ecclesiastical** has now extended their insurance products to cover photovoltaic panels and small wind turbines, while issuing guidance to surveyors and customers regarding the risks associated with these technologies. **Willis** has a Renewables Practice Group which assesses the risks of wind, solar and other alternative energy sources and develops insurance solutions to support them. The company's partnership with Narec (National Renewable Energy Centre) develops prototypes, tests renewable devices to international standards, and helps in installing low carbon technologies. Supplementing these activities with research, the outputs are used to support risk management and insurance solutions. **Co-operative Insurance** supports environmentally friendly Liquefied Petroleum Gas (LPG) cars by not charging higher premiums to vehicles, despite their potentially higher cost of repair. By evaluating the risks associated with carbon offsets, the company's eco-insurance motor policies have a 20% offset of the car's CO2 emissions. In 2011, this has resulted in offsetting 157,824 tonnes of CO2 at a cost of almost £1m.

#### ClimateWise Collaboration: Clean Energy: Carbon Capture & Storage (CCS)

ClimateWise, in partnership with the UK's Carbon Capture and Storage Association (CCSA), has set up a collaboration looking at how insurers can help manage the liabilities associated with long term storage of carbon dioxide and so facilitate the large-scale commercial deployment of CCS. The hope is that insurance solutions could provide a cost-effective way to manage the risks involved which are seen as a barrier to the commercial deployment of CCS. Workshops have been held by members and the group will report by the end of 2012.

Members have continued to share research with various networks, as per the requirements of sub-principle 1.5. The use of ClimateWise collaboration groups and events such as the ABI Property Conference and **Zurich**'s annual Natural Catastrophe Advisory Council meeting demonstrate high levels of shared knowledge and exchanged ideas amongst the insurance industry. Many members have also demonstrated shared knowledge with external groups. For example, **Chartis** has shared research with the All Parliamentary Fire & Safety Group's annual seminar. Additionally, **Tryg** is working with The Norwegian Association of Local and Regional Authorities (NALRA), NordForsk and Finance Norway to mobilise the insurance industry to work together on climate change issues. In order to do this, the company is initiating a conference, taking place in autumn 2012, to share knowledge and inform the industry about relevant initiatives.

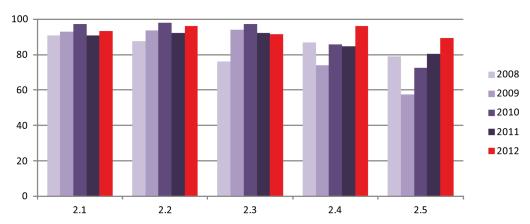


# Principle \_\_\_\_

# 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.

#### 2 INFORM PUBLIC POLICY MAKING



#### **INTRODUCTION**

Over the last 40 years global insured losses from climate-related disasters have jumped from an annual US\$ 5 billion to approximately US\$ 60 billion annually in 2011 (Swiss Re 2012). The insurance industry plays an important role in the way society is able to respond to climate change in terms of both adaptation and mitigation. Underwriting of risk is a key mechanism

in managing the disruptive and hard to predict impacts of climate change on private individuals and on businesses. The voice of the insurance industry and the quantifiable data it can provide have a recognised and credible role in public policy internationally and can help drive emissions reduction activity.

#### **SUMMARY OF FINDINGS**

Overall compliance against the requirements of Principle 2 increased from last year with scores improving against all sub-principles except 2.3, which showed a slight decrease. Senior leaders within the sector are being more vocal on climate change as a key business issue, with a number of examples of CEO-led public engagements and a move towards more active involvement and leadership in industry and cross-sector initiatives. The UN Sustainable Development Conference (Rio+20) which took place in June 2012 provided a prominent platform for this work, which needs to be maintained. Amongst the key themes to emerge which could affect the wider market for the insurance industry include the effectiveness of the EU Emissions Trading Scheme (EU-ETS); setting challenging and fair emissions reduction targets; and wider transparency on emissions performance.

Companies continue to score well against sub-principle 2.1: 'Work with policy makers nationally and internationally to help them develop and maintain an economy that is resilient to climate risk'. Engagement with policy makers is predominantly on a national level, with a wide range of topics covered. Legal and General for example have been working with the UK Government's Green Investment Bank to factor climate change into pension investment decision making. Both the Association of British Insurers (ABI) and Lloyd's of London have been working with the European Commission to extend the scope of the Environmental Liability Directive to cover damage to all marine waters. RBS Insurance (now Direct Line Group) have been using their influence to help shape and simplify the UK's support and payment regimes for electricity generators and wholesalers, with a view to ensuring renewable energy and climate change mitigation targets. RSA have been working with the Worldwide Fund for Nature (WWF) to lobby the Canadian Government to create a network of Marine Protected Areas to increase resilience to climate change. **Santam** have been partnering with the government of South Africa in the Business-Adopt-a-Municipality (BAAM) programme, focusing on promoting mitigation and adaptation activity in local areas to protect against fire, flood and storm water impacts of climate change. The Co-operative Insurance have been working with local UK Government on the National Planning Policy Framework to implement a policy of "presumption in favour" for renewable energy applications to remove barriers to community energy projects and lobbying MEPs the European Parliament to "keep tar sands out of Europe".

In addition members have demonstrated that the insurance industry is funding and conducting primary and secondary research with direct relevance to informing and influencing policy making, with topics including the impact of climate change on historic buildings and archaeological sites (*Ecclesiastical*); catalysing low-carbon growth in developing countries (*Hiscox*), methods for improved climate change economic impact assessment (*If P&C*) and the liability challenge of climate change (*Lloyd's of London*).

#### Case Study: Santam and the Eden Project

Santam is working in partnership with the Council of Scientific and Industrial Research (CSIR), the University of Cape Town (UCT) and the Worldwide Wildlife Fund (WWF) to understand the dynamics between risk and resilience in a socio-ecological landscape, and the role of the industry in shaping societal behaviours. Phase 1 included a study in the Eden district where an increase in losses was noted due to environmental, social and governmental factors. Three main revelations were noted: 1) climate changes are driving higher risks; 2) human impact is important to determining our vulnerability to climate risk; 3) risk levels are determined by non-linear interactions between the different risk drivers. Phase 2 will be the application of the learning from phase 1, including risk management and risk assessment.

The renegotiation of the ABI Statement of Principles on the Provision of Flood Insurance is a key issue for the UK insurance industry, and was reflected by many members, amongst other wider ranging climate change issues.

This year has again seen a number of good examples from members highlighting work in relation to sub-principle 2.2 - 'Promote and actively engage in public debate on climate change and the need for action". Members are engaging with local, national and international governments, as well as consumer organisations, issue-based working groups, private sector and third sector. One member (**RBS Insurance**) is also actively researching which issues their stakeholders are interested in and using this as a basis for their communication and research. In some cases, including **Aviva**, **Ecclesiastical**, **Tokio Marine & Nichido Fire Insurance** public debate on climate change is being led at CEO or MD level which sends a signal internally and externally to the organisation about the priority and strategic importance of climate change as an issue.

#### **ClimateWise Collaboration: Resilient Cities**

The Resilient Cities collaboration is looking at increasing cross-sector working around urban climate resiliency. It aims to produce a systemic understanding of where the business models of the micro-economic players and the macro-economic enablers in a city already overlap.

The collaboration is focused on North American cities and is being delivered through a partnership between ClimateWise, its Secretariat at the University of Cambridge (CPSL) and Ceres, the US-based advocacy group for business leadership on sustainability.

One workshop took place in early 2012 with another two planned through to 2013. These workshops will contribute to the development of a framework 'Building Climate Resilience in Cities: Priorities for Collaborative Action' to help activate a broad audience of policy makers, private (re) insurers, city planners and property owners.

Members' activities in relation to sub-principle 2.3 fall into three areas which are briefly explored below.

Firstly, members set their own emissions targets in line with national or international benchmarks and report against their own efforts to achieve reductions. Seven members explicitly stated in their report that they have set their own reduction targets, which are challenging and in line with international levels. However, a significant number still have not taken this step. Those who have not are in general communicating that they are working in this direction and will set targets shortly, though we noted that progress here has in some cases (5 members) stalled, with no published targets in 2012 despite a commitment made in the 2011 report. Some members are using high quality carbon offsetting projects to achieve carbon neutrality (**Tokio Marine & Nichido Fire Insurance**).

Secondly, members may lead or participate in initiatives that support or inform others in their efforts to reduce emissions. This might include working to remove barriers to community renewable energy projects, campaigning for an improved market for certificates under the EU Emissions Trading Scheme (**Aviva**) or providing funding to the London Energy Efficiency Fund (LEEF) which provides affordable, flexible loans for public sector organisations looking to reduce carbon emissions (**RBS Insurance**).

Lastly, members may participate in the international debate on setting policy and appropriate reductions targets. This may take the form of responding to consultations, such as the UK Government consultation on its "Green Deal" (Association of British Insurers)

or publicly supporting government policy proposals such as mandatory carbon reporting (**Aviva**, **Aon**). Leaders report that they are actively involved in shaping national policy through direct talks and participation and proactively advocate more public action on climate change (**Swiss Re**). As ClimateWise Members mature in their internal climate change programmes, we hope to see more examples of members working actively at this level to influence climate change policy.

Sub-principle 2.4 – 'Support Government action, including regulation, that will enhance the resilience and reduce the environmental impact of infrastructure and communities', increased substantially in compliance from 85% to 96%. This is mainly due to better disclosure but is in part due to the slight change in member composition this year improving the scores but good examples include thought leadership on sustainable stock markets from **Aviva** and development of post-disaster recovery and buildings standards (**Chartered Insurance Institute**).

Sub-principle 2.5 – 'Work effectively with emergency services and others in the event of a major climate-related disaster', has also increased significantly in average score. While several reported no activity due to a lack of major disaster events in their operating territories , leaders reported activity in relation to either business continuity planning or their support of NGO or disaster relief fundraising.

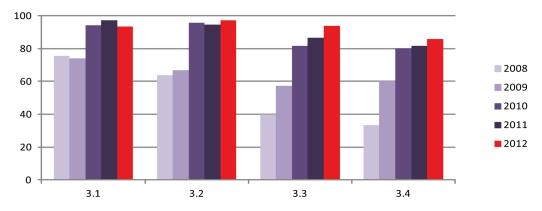
While support of NGO activity in disaster areas is important, it would be an interesting development to see insurance companies working alongside government or third sector organisations to develop inclusive business approaches to disaster relief. In some cases this would involve new markets or development of new products, such as creating new low-income communities insurance products as a part of its value chain.



# 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.

#### 3 SUPPORT CLIMATE AWARENESS IN CUSTOMERS



#### **INTRODUCTION**

The insurance sector is well positioned to help customers understand their contribution and exposure to climate risk and provide products which help them to mitigate or adapt to the effects of climate change. Members recognise that climate change adaptation and mitigation presents significant opportunities and risks to their businesses, and reporting on this principle underlines that members are making efforts to not only roll out products and services to cater to climate change, but to also educate and influence their customers towards sustainable behaviours.

#### **SUMMARY OF FINDINGS**

Members' compliance in relation to Principle 3 has increased again on previous years to an overall average score of 93%, with only sub-principle 3.1 seeing a small decrease in compliance. Members continue to use traditional communication methods for providing information on their level of risk related to climate change and practical advice on precautionary steps to take in the event of extreme weather. The use of websites remains popular, with **Zurich** having a customer microsite dedicated to flood information, **Hiscox**'s personal and home insurance sites offering advice on precautions to take in the event of extreme winter weather, and **The Co-operative Insurance** offering energy saving tips online. Members also continue to utilise traditional promotional literature such as periodic newsletters, magazines and policy documents.

Other communications initiatives include proactive press activity. For example, **Aviva** issued press materials both in preparation for and in response to extreme weather, temperatures and storms in 2011. These press releases informed customers that Aviva's contractors, claims teams, and call centre staff were on standby to assist if required, and also offered practical tips on how to prepare for extreme weather. Some members chose to communicate to customers through dedicated events, with **Tokio Marine and Nichido Fire Insurance** holding an annual Global Warming Seminar encouraging climate-friendly practice amongst a business audience. Meanwhile, **Santam**, organised a media roundtable in advance of the 2011 United Nations Climate Change Conference held in Durban to raise climate awareness by outlining the role of the insurance sector in tackling climate risk.

An increasing number of leading members are making reference to their development and use of tools to help their customers identify and assess their own levels of risk. For example, **Tryg** has integrated a tool into its offering for commercial customers. The tool allows customers to understand their climate risk profile, assess their risk in relation to various weather events, and reduce their vulnerability. Similarly, **Chartis** continues to deploy its RiskTool system, which allows its insurers' policyholders to identify and mitigate risks in the workplace, and its Green Matters Insight tool, which provides information regarding climate change, sustainable buildings, and building standards for property customers. **Legal & General** recently launched an online tool featuring an 'Interactive House'. By exploring a virtual house room by room, customers can find answers to queries, obtain tips on how to protect their home, and better understand their home insurance policy.

Interestingly, a couple of members described their use of social media in communicating with customers. At the start of the 2012 Atlantic Hurricane Season, **Lexington (Chartis)** launched a marketing campaign targeted at property brokers to highlight its preparedness to respond to and support its policyholders in the occurrence of an extreme weather event. This included updates on the company's Twitter, Facebook, and LinkedIn pages as well as the use of a mobile app for reporting notice of loss. Similarly, **RBS Insurance** created a series

of "how to" videos shared on YouTube which offers advice on how to maintain and improve their home's resilience to climate change impacts. Given the proliferation of social media use among businesses, its efficacy in facilitating the sharing of information between huge numbers of people, and its ability to allow companies and their customers to interact in real time, we expect to see more examples of this practice in future.

#### **ClimateWise Collaboration: Building Resilience in Underinsured Markets**

This collaboration looks at whether embedding risk reduction in the development of risk transfer schemes in the developing world improve the commercial viability of insurance products which build resilience for vulnerable communities to climatic extremes.

The 2011 Intergovernmental Panel on Climate Change (IPCC) Special Report emphasised that it is the poorest countries which are expected to be the worst affected by changes in the frequency and intensity of extreme weather events. These countries also have the low insurance penetration.

A survey in 2011 by ClimateWise of existing insurance schemes in the developing world highlighted that the focus remains on risk transfer rather than risk reduction. Preliminary analysis indicates that incorporating risk reduction into schemes, even if there is not direct causality, can create better outcomes for both development objectives and commercial viability of the scheme in question.

ClimateWise has a partnership with the International Finance Corporation (IFC) under their Building Africa's Resilience to Climate Change (BAREC) programme to explore through a case study approach whether linking risk transfer with risk reduction can increase the commercial viability of a range of insurance products and capture lessons that are applicable to other contexts. ClimateWise is convening leading insurers around a pilot being developed in Zambia under the Pilot Programme for Climate Resilience (PPCR) within the Climate Investment Funds (CIFs). These funds have a specific mandate to incentivise private sector involvement in addressing resilience.

Many members continue to evidence compliance with sub-principle 3.2 through their coverage of "environmentally friendly" technologies or products. **Allianz, Aviva,** and **Lloyds Banking Group** are just three examples of members integrating coverage for customers generating electricity through wind turbines and solar panels as part of their standard policies. In addition to providing insurance for electric cars, motor insurers continue to

encourage environmentally-conscious driving through pricing initiatives. **RBS Insurance** is currently trialling telematics among staff to collect and report data on driving habits. This may lead to the development of insurance products which financially incentivise safe and environmentally friendly driving behaviour. Similarly, **Santam** launched LiveTrack in 2011, a product which gives customers a 20% upfront discount on their premium and a further 5% reduction if there is evidence of responsible driving behaviour for the past 12 months. Meanwhile, **Tryg**'s car insurance incentivises the purchase of electric cars by offering electric car insurance at a 40% lower price than ordinary car insurance. However, there is little indication provided regarding the uptake of such products.

This year there was stronger evidence from members in relation to sub-principle 3.3 and for the fifth year running saw an increase in the level of compliance. Many members continue to outline initiatives they are taking to make the claims process more environmentally friendly, such as introducing online claims handling to reduce paper usage and transport and the introduction of more fuel-efficient fleets to service customer claims. Compliant members also reference their involvement in working groups, such as the ClimateWise Sustainable Claims Working Group.

Members outlined their efforts in providing customers with information to encourage them to accept sustainable repairs. Lloyds Banking Group's loss-adjusting teams provide advice to customers on resilient reinstatement after flood claims, and Tokio Marine and Nichido Fire Insurance encourages customers to accept repairs over replacements and, if replacement is required, to accept recycled parts. Furthermore, some members are introducing financial incentives for customers and suppliers to increase the sustainability of repairs, with Chartis contributing towards the expenses of sorting and transporting recyclable debris to recycling facilities, and RSA developing policies which offer incentives to fit water leak detection and prevention devices. Cunningham Lindsey has also taken the interesting initiatives of identifying and benchmarking the carbon emissions of various types of building repair in order to quantify the carbon savings of using different materials. Whilst there has been some uptake, there is also anecdotal evidence of customers resisting sustainable repairs, suggesting further education is still required.

It is also encouraging to see an increasing number of members describing their engagement with suppliers to increase the sustainability of repairs. For example, **If P&C Insurance** includes an environmental clause in all of its significant supplier contracts. In addition to financially rewarding its suppliers for repairing damage over replacing, **The Co-operative Insurance** also sets its suppliers and partners carbon reduction targets to contribute to its own group goal of a 50% reduction in emissions by 2020.

Despite an overall increase in compliance, members continue to encounter difficulties in providing evidence that demonstrates effective work in relation to sub-principle 3.4 compared to other areas. 9 members explained that the principle was not relevant to their business due

to the nature of their products or the fact that the company does not have direct operations in developing countries. In addition to citing product offerings in emerging economies where they operate, partial compliance was achieved through description of philanthropic activities such as engagement in carbon offset schemes, social projects and charitable donations.

Higher scoring members evidenced examples of how they are leveraging their expertise to assist the developing world, with **Tryg, RSA, Allianz, Marsh** and **Chartis** describing good examples of micro-insurance offerings. **Willis, Hiscox** and **Tokio Marine** and **Nichido Fire Insurance** specifically describe their insurance initiatives in the agricultural sector which provide weather and yield protections to farmers. Other innovative means of deploying core competencies to help the developing world include **Tryg's** participation in a private equity fund with other participants from the financial services sector to establish renewable energy projects in Sub-Saharan Africa. Meanwhile, **Swiss Re** has focused on developing risk transfer solutions to expand cover to emerging economies as documented in more detail below.

#### Case Study: Swiss Re

Swiss Re's approach to assisting the developing world to understand and respond to climate change is rooted in its core expertise as a reinsurer and conducted in its long term business interests. For example, in Haiti, the company has partnered with Fonkoze, Haiti's largest microfinance organisation, to develop an insurance policy which extends cover for cholera to Fonkoze's female borrowers and their families. Policyholders receive real-time payouts whenever a cholera outbreak is detected.

Meanwhile, Swiss Re has also partnered with Oxfam, the World Food Programme, and the US Agency for International Development to extend weather insurance to smallholder farmers in Ethiopia and Senegal whose crop yields are vulnerable to drought. These farmers can pay for their insurance through contributing labour to community projects aimed at improving local agriculture, reducing the impact of natural disasters, and adapting and increasing resilience to climate change. Such projects include construction of irrigation systems and reclaiming degraded land through forestry initiatives.

By helping poor communities in developing countries respond to the threats posed by climate change in this manner, Swiss Re is deploying its existing knowledge and contributing to the development of formal insurance markets in these regions.

Building on last year's recommendations, members this year were also increasingly able to demonstrate compliance by explaining how specific research activities will contribute to helping developing countries understand and respond to climate change. For example, the **Chartered Institute of Insurers'** centenary Future Risk project offered significant coverage of the risks developing nations face, and the potential effect adaptation and mitigation efforts may have on health and wellbeing prospects in these regions. **RMS** has also invested in research efforts to help emerging economies understand climate risk and options for managing this risk. This includes supporting the launch of affiliate organisation, the Asia Risk Centre, whose research topics include the technical and commercial viability of micro-insurance systems in China and India, and food security and risk transfer solutions in Asia.



## Principle \_\_\_\_\_

## 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.

# 4 INCORPORATE CLIMATE CHANGE INTO INVESTMENT STRATEGIES 100 80 40 2009 2010 2011 2012

## **INTRODUCTION**

What we invest in now determines what kind of society we will have in the future. This year the insurance industry continues to see heightened focus on regulatory concerns such as Solvency II. Although there is an increasing awareness of the need to consider the impact of financial regulation on growth and investments in green infrastructure there is still much to be done for these issues to be considered as material.

### **SUMMARY OF FINDINGS**

This reporting period has seen an increase in compliance across all sub-principles culminating in an overall increase from 72% to 82%. Disclosure of activity whatever the sophistication has greatly improved and there is now at least disclosure from every member across sub-principle 4.1. Some areas have seen real progress during the year which is highlighted throughout this section of the report. This Principle does have the highest number of exemptions (8) and so best practice and leadership examples are slightly more confined to a smaller number of members. That being said, compared to five years ago, investment strategies which are being communicated and implemented have significantly moved forward.

Most members have now established investment strategies that look to incorporate environmental, social and governance (ESG) factors alongside traditional mainstream company analysis that is considered when making investment decisions. The vast majority of investments are in government fixed income or corporate bonds which traditionally have been apparently less exposed to changing ESG or climate change considerations, perhaps because most analysis has focused on equities to date. This thinking looks set to be challenged in the future with the introduction of these factors into credit rating agencies evaluation of corporate bonds.

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 reverse of fortunes this year and is close to the level achieved in 2010. Aviva have restructured their responsible investment team and have now implemented a new ESG integration process. ESG engagement and integration now applies across mainstream assets under management and will be integrated within portfolios by all analysts and fund managers who will be provided with directly relevant investment information by brokers and independent research providers. **Zurich** have disclosed progress in this area and have recently appointed a Head of Responsible Investment. Lloyds Banking Group report that social, ethical and environmental issues are among many issues considered when making investment decisions and make these publicly available through their website. The Co-operative Insurance conducted a survey in 2011 and found that ESG factors, among which climate change and corporate governance dominated, had a material impact on their investment outlook in the case of a quarter of all equities under active coverage. Other members including If P&C and Santam are at a different stage of assessing and integrating these factors but are now beginning to be in a position where they can comment on their progress and objectives for the future. This level of disclosure is new and it will be interesting to see how these strategies are created and implemented moving forward.

## **ClimateWise Collaboration: Investment**

This Collaboration is examining what excellence looks like when incorporating low carbon decision making in insurance and reinsurance investment strategies.

The International Energy Agency (IEA) estimates that investment and spending in low carbon energy technology needs to dramatically increase from current levels if we are to avoid dangerous climate change and the consequent costs, rising from US\$260 billion in 2011 to US\$1.15 trillion by 2030. Not mitigating climate change has serious implications for corporate performance. Consequently investment allocation and portfolio management that does not take into account climate risks and opportunities will undermine long term growth and financial stability.

In relation to sub-principle 4.2 members continue to demonstrate a range of approaches to encouraging appropriate disclosure on climate change from the companies in which they invest. Compliance is achieved in many cases by signing up to the Carbon Disclosure Project (CDP) or providing commentary as to how the member actively engages with investee companies to disclose on certain activities that are ESG related. **Ecclesiastical**'s investment team have met with over 200 companies in which they invest during the year. **The Co-operative Insurance**'s investments operate under their Ethical Engagement Policy which ensures they take an active interest in making sure that there is full disclosure on a company's approach to managing all relevant social and environmental risks, including climate change, that the company faces. **Zurich**'s four largest external asset managers are signatories to UNPRI and have carried out training of analysts and portfolio managers on ESG issues who also actively manage proxy voting rights on their behalf. **Legal & General Investment Management (LGIM)** have publicly disclosed their activities with specific individual investee companies through their first Corporate Governance report (see case study for more details).

Members continue to increase their focus on looking at the energy efficiency, climate resilience and performance of their investment property portfolio. Overall performance in this sub-principle is high, building on last year's significant progress, and reflects the greater level of disclosure that members are providing in relation to their activity in this area. In March 2012 **Aviva** Investors published a thought piece of the implications of climate change for real estate investment strategies which highlighted the risks and opportunities that climate change creates for property investors but suggested that as the risks are so great that portfolios should be reviewed and investment strategies adjusted accordingly. Other members taking action in this area include **AIG Global Real Estate (GRE, Chartis)**, the GRE Group routinely perform research and analysis on emerging green technologies, products and companies. They also report internally on environmental criteria for all projects in the

global portfolio and frequently review the portfolio for opportunities to increase energy efficiency, enhance building performance and reduce carbon emissions. **Legal & General** continue to integrate sustainability into their property investment portfolio, building on last year's progress, and it is one of their five campaigns in their CSR strategy. Their sustainable property investment committee meet four times a year to agree public reduction targets covering various aspects of their portfolio. Driving environmental improvements of its assets is a key part of **Prudential Property Investment Managers (PRUPIM)** Responsible Property Investment Strategy – managers meet four times a year to agree public reduction targets covering various aspects of their portfolio.

Sub-principle 4.4 – 'Communicate our investment beliefs and strategy on climate change to our customers and shareholders' has again seen a considerable increase in the level of reporting and compliance now stands at 79%. As mentioned in the summary of sub-principle 4.1 more members are now able to provide evidence of where investment strategies exist and how these are being disclosed. Some of this though is still passive and there are improvements needed here to be more proactive and to also assess the impact that communicating and sharing this information has. The methods for this communication still reside in annual sustainability reports or investment briefing papers. This year however we have seen a first Corporate Governance Report from Legal and General Investment Management (LGIM) (see case study) which demonstrates a high level of transparency. PRUPIM's latest annual Responsible Property Investment (RPI) report, published late 2011, details its revised strategy for RPI. The strategy was developed to enable PRUPIM to manage and respond to the growing range of environmental and social issues that can impact property values, helping it protect and enhance fund and asset performance for their clients. It focuses on four main areas: Ensuring portfolio resilience; Driving environmental performance; Building strong relationships and; Responsibility in its own operations. This report is published annually on PRUPIM's website but is also emailed to customers, client funds and other business contacts. The **Co-operative Insurance** also provides regular updates on their investment beliefs and strategy on climate change using their website to provide details of engagement work. **Ecclesiastical** discloses its shareholder engagement, voting record and policies and continue to provide their sustainable investment views via social media.

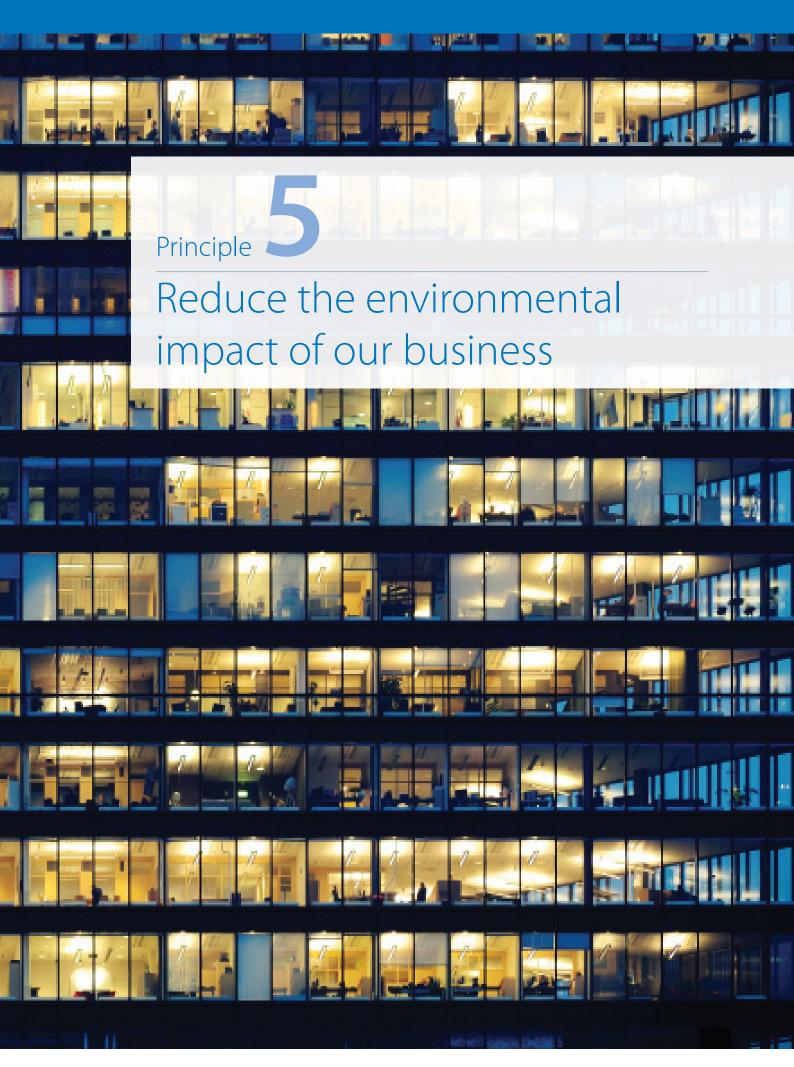
## **Case Study: LGIM Corporate Governance Annual Report**

During April 2012 L&G IM have produced their first Annual Report on Corporate Governance & Responsible investment which has been compiled to communicate to their clients and the wider stakeholders what they are doing in this area.

The report provides an excellent level of detail outlining LGIM's activities in relation to voting, influencing and engaging with companies on a wide range of governance, social and environmental issues which impact companies' operations over the long term. During 2011 LGIM carried out meetings with 238 companies covering a number of different sectors on a wide range of issues.

http://www.lgim.com/library/capabilities/Annual\_Report.pdf

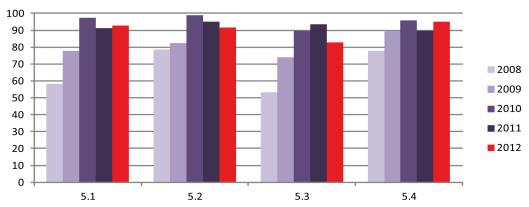
Sub-principle 4.5 – 'Share our assessment of the impacts of climate change with our pension fund trustees' continues to be the area across the ClimateWise Principles that members do not appear to be progressing. A lot of the evidence submitted during the reporting period demonstrates an indirect approach to communication which makes the impact difficult to assess. Few members can comment on the influence any discussions had and whether the pension fund trustees had increased their consideration of these issues. There have been some examples of progression in this area however: for example **Aviva** and their pension fund trustees are now signatories of UNPRI and they will report for the first time in 2013. Their Corporate Responsibility (CR) team are working with Aviva Investors to incorporate ESG considerations and measurement into their pension investment decision process. **RSA** have also undertaken a recent review of ESG risks and their integration into the investment process. Their major pension funds then updated their statements of investment principles so that they fully reflect these risks. However, this must be an area for future focus given the catalytic impact their own pension funds could have on the wider market.



# 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.

## 5 REDUCE ENVIRONMENTAL IMPACT OF BUSINESS



### **INTRODUCTION**

The key areas which the insurance industry can influence the climate change agenda is through its core businesses of underwriting risks and providing products and services, as well as through its investments, influencing public policy, and data and analysis. However, despite the insurance industry's lack of direct environmental footprint relative to other sectors, initiatives to reduce direct environmental impacts are a useful way of engaging employees

on the company's climate change strategy, demonstrating an organisation's commitment to the agenda, and adding credibility to lobbying activities. These initiatives are also important in the context of growing regulatory pressure. The UK Carbon Reduction Commitment Energy Efficiency Scheme and impending mandatory carbon reporting for companies listed on the London Stock Exchange potentially place an increased burden on members to report on and reduce their direct environmental impact.

## **SUMMARY OF FINDINGS**

Overall, members' compliance in relation to Principle 5 fell slightly, reflecting the overall lack of progress demonstrated by members in the reporting period. The majority of members achieved compliance with sub-principle 5.1 by describing how their policies and procedures place sustainability requirements on potential suppliers and how suppliers are screened according to sustainability criteria. Similarly, members also tend to request a copy of suppliers' environmental policies during the pre-qualification or evaluation stage of tenders, with Lloyd's Banking Group and Zurich including sustainability criteria in their supplier pre-qualification questionnaires. However, it is unclear whether suppliers are being selected or deselected based on environmental criteria. Some members also outline how they are strengthening the monitoring procedures against these requirements. Friends Life include risk assessments against sustainability criteria into its key contracts, and set management actions and improvement targets where appropriate. All of Zurich's third party contracts include periodic reviews to ensure that suppliers are operating to **Zurich**'s corporate responsibility standards. Key suppliers are reviewed on a quarterly basis through a performance management framework, and where appropriate, onsite assessments. IT, catering, stationery, and recycling continue to be frequently cited by members as target areas of their work with suppliers.

This year, there was increasing evidence of members disclosing quantitative information regarding the impact of procurement initiatives. For example, **Marsh** and the **Co-operative Insurance** obtained 100% and 97% of electricity from renewable sources in the reporting period respectively. Additionally, **Legal & General**'s supply of copier paper has full Forest Stewardship Council (FSC) Chain of Custody certification. **Prudential**'s printer paper in its head office is 100% recycled, whilst its stationery comprises 50% recycled paper and 50% FSC-certified virgin paper.

It is encouraging to see some members running workshops and programmes with their suppliers to tackle sustainability issues in partnership. **Hiscox** and **RSA** run workshops with their suppliers in order to identify and develop initiatives for reducing environmental impacts of operations. At its new site in Bristol, **Friends Life** has created an environmental management partnership titled 'Workplace Solutions' with its facilities managers, contractors and suppliers, which has led to reduced waste, increased recycling, and greater employee awareness of sustainability issues.

## **Case Study: Tryg and the Responsible Procurement Project**

Since 2011 a formal programme has been launched whereby Tryg works with suppliers within the Automotive, IT, Marketing, Consultancy, and office supply sectors to ensure that Tryg's Corporate Social Responsibility (CSR) standard is complied with. Through dialogue and in 2011, 22 workshops with suppliers, realistic targets are set for multiple areas, including reducing CO2 emissions, enhancing security for employees and recruiting ethnic minorities. The suppliers are required to submit a plan of action containing targets and activities and to report results in an annual report.

## **ClimateWise Collaboration: Sustainable Claims**

Guidance on implementing a process to reduce the environmental impact of domestic property claims was launched at the 2012 Association of British Insurer's Property Conference.

Committing to a sustainable claims process requires:

- 1. Identification of priority areas to reduce environmental impact
- 2. Implementation of a sustainable claims management plan to reduce environmental impacts
- 3. Communication, appropriate to your business, with contractors, suppliers and customers on opportunities to reduce environmental impact
- 4. Standardised annual reporting on progress

Consistent with prior years, the areas which members continue to focus on with regards to subprinciple 5.2 include reducing business travel, increasing the usage of teleconferencing, and promoting office recycling. Members are also increasingly disclosing the measures they have taken to increase the sustainability of its buildings, such as the installation of energy-efficient lighting and electronic goods. Recognising that 50% of its emissions stemmed from occupied buildings, **Aviva**'s new Polish headquarters was built to a high environmental specification, incorporating sustainable systems such as flow restrictors on taps, and will be audited annually for improvements. Similarly, the environmental award-winning **Willis** building in London contains sustainable features as rainwater irrigation, automatic water taps, and automatic light sensors. As part of their environmental impact reduction efforts, members are seeking to obtain and roll out various certification and accreditation schemes for their environmental management systems. **CII, Friends Life**, and **RSA** are Carbon Trust accredited. Other certifications disclosed by members include CEMARS (**Aon**) and ISO 14001 (**Legal & General**).

The majority of disclosure remains focused on approaches to reducing carbon emissions, with a number of members outlining their short and long-term emissions reduction targets. **RSA** goes one step further in normalising its reduction goal, aiming to reduce its CO2 emissions by 50% per £m net written premiums by 2020, using 2006 as a baseline year. Other best practice in this area includes the calculation of emissions reductions from business travel (**Zurich**) and the separation of emissions by scope (**RMS**). Additionally, a very small number of members outline their approach to carbon offsetting.

Slight progress has been made in terms of widening the focus of disclosure beyond just carbon emissions. There was evidence of members measuring and disclosing data in areas such as waste production and recycling, business travel, and water usage. **Chartis** reported the broadest range of environmental KPIs, including the weight of paper recycled, weight of food waste sent for composting, and amount of waste sent to landfill.

One development has been members measuring and disclosing the impact of specific initiatives to reduce their direct environmental impact. For example, **RSA**'s commercial team in Canada saved 700,000 sheets of paper through the use of a paperless submission system for customers. Similarly, **Lloyds of London**'s use of Diligent Boardbook technology on iPads for the distribution and review of all Group board and committee packs and sharing of information amongst senior **Amlin** employees has reduced these staff members' paper usage by an estimated 70%. Meanwhile, **Chartis** have placed a financial value on initiatives, estimating that sustainability initiatives in its Houston office have saved almost \$1 million in annual operating expenses. Similarly, **Cunningham Lindsey** anticipates that its increased use of video conferencing will result in £1 million worth of savings in travel costs this year.

Sub-principle 5.3 saw the number of members disclosing their GHG emissions drop slightly, with 21 members scoring full compliance and 14 members reporting their scope 3 emissions. The majority of members disclose their direct emissions, typically according to Defra reporting guidelines and the Greenhouse Gas Protocol. Many members continue to disclose their emissions in annual sustainability reports or online, as well as through participation in the Carbon Disclosure Project. The number of Members employing external auditors to independently verify emissions data continues to increase, with a small number obtaining external verification according to the ISO14064-3 standard.

With regards to sub-principle 5.4, there continues to be evidence showing that Members have established employee engagement initiatives. These typically entail internal networks of "environmental champions", staff community volunteering days, and events dedicated to raising environmental awareness. Methods of communication include company intranets, internal magazines and, in some cases, employee handbooks. Some members are helping employees to measure and reduce their personal footprints by providing carbon calculating tools (Ecclesiastical, Brunel). There was a slight increase in members providing quantitative data regarding the uptake of their initiatives, with 103,000 employees taking part in **Lloyd's** 

**Banking Group**'s 'no travel' week and 4% of **Allianz**'s employees registering for its car-share scheme. However, provision of such metrics continues to be sporadic among members.

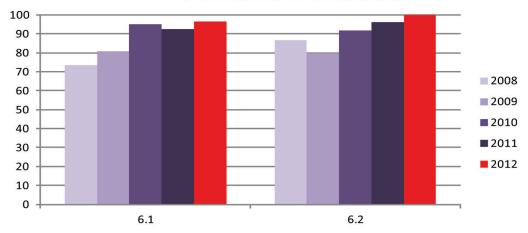
However, there continues to be limited examples of members engaging their employees on climate change regarding its impact on core business operations, for example, the development of new insurance products and services. In addition to helping employees reduce their own direct environmental impact, **RMS** engages them specifically on the company's climate change strategy, including the business risks posed by climate change. **Prudential** continue to integrate the principles of Responsible Property Investment into its training programme and employees' continued professional development. Additionally, all of its staff job role profiles include a requirement for staff to both understand and apply the firm's sustainability vision and strategy in their role.



## 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.

## 6 REPORT AND BE ACCOUNTABLE



## INTRODUCTION

Principle 6 is arguably one of the most important elements of the ClimateWise Principles and members demonstrate the importance placed on it through the level of Board endorsement and integration into the company's business strategy and planning. With the current economic climate and regulatory challenges that companies are facing, members have demonstrated proactivity in addressing climate risks.

## **SUMMARY OF FINDINGS**

The level of reporting and performance across Principle 6 is now at an extremely high level as members continue to demonstrate the importance placed on climate risk and thus incorporate it into their businesses' climate risk and sustainability strategies. For the majority of members, senior executives such as CEOs, COOs and HR Directors take ownership of climate risk and sustainability

strategies. This year has seen a number of examples of board level responsibility ensuring that climate change and the related risks and opportunities are discussed at the highest level.

As far as the integration of climate risk was concerned, we looked for members to provide evidence that the organisation had built climate risk considerations into their core functions, for example by involving departments outside of Corporate Responsibility, Corporate Social Responsibility, Sustainability or Corporate Affairs. As mentioned last year, this can be done in a variety of ways, including direct evidence in the submission, representation of core functions in the interview, or allocating responsibilities of different ClimateWise Principles to different functions.

Many members have evidenced senior representatives speaking at external events focusing on climate risks, for example **Allianz**'s CEO spoke at the ABI property conference about sustainable claims. Furthermore, new governance structures have been implemented in order to facilitate the incorporation of climate risk. As an example, **Tryg** have a new preventative unit with a claims department as a result of incorporating climate risk into Group business strategy. The Board and Group Executive have set climate risks at the centre of their agenda. Furthermore, climate change initiatives are being turned into Key Performance Indicators, which supports Board level commitment. As an example of integrated practice, **Cunningham Lindsey**'s CEO heads the climate initiatives, while an Internal Sustainability Forum supports the implementation of business strategy. This Forum comprises of Loss Adjusters, Surveyors, Contractors, HR and other internal business functions.

There are many examples of the integration of climate change into business strategy and planning, as per Principle 6.1; however, the impact on business strategy is still not made clear by members. Lloyds Banking Group provides a good example of the outcome of such integration. A non-executive Director chairs the Responsible Business Steering Group and is the Board level sponsor for the environmental and community strategy. Climate risk has influenced strategy in a number of ways, including regulatory and physical impacts, as well as rising energy costs and the depletion of natural resources.

## Case Study: Ecclesiastical – Governance

Social and economic impacts of climate risk are incorporated into business strategy and planning. The Group Risk Committee meets quarterly and considers climate change risks, amongst others, reporting to the Board after each meeting. The Managing Director (UK) is the Board member responsible for corporate and environmental strategy. ClimateWise feedback is considered annually and the Environmental Strategy Group responds to issues and makes recommendations to further ClimateWise Principles. Best business practice is observed through voluntary compliance with the Financial Reporting Council's UK Corporate Governance Code as well as the Principles of Stewardship Code. Furthermore a new Overarching Policy for Corporate Responsibility will be adopted by all Group Subsidiaries and branches.

The criterion for assessing 6.2 has been slightly amended and members now score full compliance for producing a report on actions that have been taken with the Principles. Whether they publish it themselves or not is no longer a key requirement. As a result sub-principle 6.2 has had 100% compliance this year with all members submitting a report; however, it should be noted that the standard of reporting and detail provided has been varied. Reporting can be improved by labelling and addressing each principle and sub-principle clearly, consistently and in a structured manner. It is worth mentioning that if work has not been done against a sub-principle, disclosure is still awarded for members who are transparent about this. Where other documents are referenced, it would be useful to include page references and specific web-links so that work done throughout the year can be identified clearly.

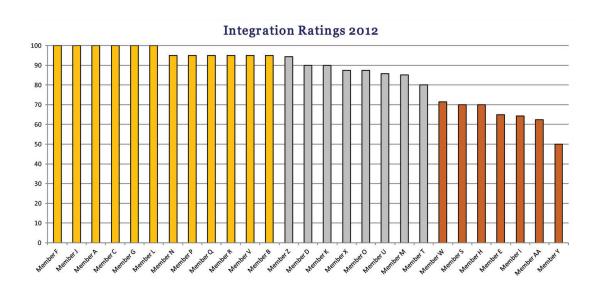
Some members continue to reference their work in relation to ClimateWise Principles in Corporate Social Responsibility reports, as well as producing a well-structured and transparent ClimateWise member report which is published on the website. Others, as an example, do not publish their reports on their own websites or cross-reference them alongside other reports. Thus, there is disparity in terms of the quality and public transparency of reporting.

## **Case Study: Santam – Reporting and Transparency**

Santam's integrated approach to climate risk can be seen through its Social, Ethics and Sustainability Committee overseeing its environmental positioning using the ClimateWise principles as a framework.

The transparency with regards to the company's ClimateWise report is an example of leading practice as it incorporates disclosure of year-on-year data. Furthermore, Santam's first integrated report consists of the Santam Integrated Report, Annual Financial Statements as well the Sustainability Report which also contains company performance. The way in which the report is structured is also clear, with relevant labelling and sufficient detail.

## Integration analysis



Last year, for the 2011 ClimateWise Principles Independent Review we introduced an additional assessment of member performance. The 'Integration Analysis' was used to determine how members were demonstrating an integrated approach to managing climate risk. This was in direct response to the 2010 Independent Review which 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.

We have repeated the assessment this year using the same criteria which allows comparative analysis to assess how members are progressing against the criteria established.

The integration assessment developed by PwC focuses on two areas:

- 1. <u>Statement of strategic intent</u>: 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.
- **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**

There has been a noticeable improvement this year in the number of members linking climate risk to strategic statements and providing evidence of activity in key functions of the organisation. Whilst approximately the same percentage (over 75%) achieved either gold or silver ratings in this analysis, the split has shifted significantly and the majority of this group are now rated gold. In addition, no member this year scored below 50% (compared to 2 in 2011).

Two thirds 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.

Some members have included position statements in relation to integration in their ClimateWise reports this year. The findings make good reading, 12 members, up from 7 last year, 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.

A continuing theme from last year was in relation to the features of a silver ranking. Although they generally performed well across all criteria, one area that continues to prevent many of them 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).

Typically most members in the bronze 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 year has seen a significant improvement in the number of members demonstrating best-in-class integration. These members are taking a more strategic approach to embed climate risk into their core functions and are happy to communicate their strategy and progress. However, there is more that members rated at silver and bronze (just over half of the membership), can do to demonstrate a clear understanding of the strategic importance of climate-related risks and opportunities as relevant to the core functions of an insurer.

## Appendix A

## 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 progress.

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 public 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 fewer gaps in reporting than in previous years, but by contrast, some members still submitted disjointed reports which did not address the assessment effectively.

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**

The scoring methodology has remained the same as last year. Disclosure and compliance were merged together to create a single, overall compliance score. There is 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.

There are 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.

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 23 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 2% across the Membership which was less than last year.

## 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

Org	anisation	Key business lines	Size (Market Capitalisation £m*)	Size (number of employees)
1	Allianz Insurance(UK)	Non-life	34,552	1,001-10,000
2	Aon	Reinsurance broker (non-life)	10,942	1,001-10,000
3	Association of British Insurers (ABI)	Trade association (all lines)	n.a	51-200
4	Aviva	Non-life and life	9,881	10,001-50,000
5	Brunel	Non-life	n.a	1-50
6	Chartered Insurance Institute (CII)	Professional body (all lines)	n.a	51-200
7	Chartis Insurance	Non-life and life	30,183	10,001-50,000
8	Cunningham Lindsey	Non-life	n.a	1,001-10,000
9	Ecclesiastical	Non-life and life	n.a	1,001-10,000
10	Friends Life	Life	<mark>n.a</mark>	1,001-10,000
11	Hiscox	Non-Life	1.905	1,001-10,000
12	If P&C	Non-Life	n.a	1,001-10,000
13	Legal & General	Non-life and (mainly) life	8,306	1,001-10,000
14	Lloyd's of London	Marketplace for all lines	n.a	+ 50,000
15	Lloyds Banking Group	Non-life and life	30,546	+ 50,000
16	Marsh	Non-life	11,670	+50,000
17	Prudential	Non-life and (mainly) life	21,950	10,001-50,000
18	RBS Insurance	Non-life and life	n.a	+ 50,000
19	Risk Management Services (RMS)	Risk modelling firm	<mark>n.a</mark>	1,001-10,000
20	RSA	Non-life	4,008	10,001-50,000
21	Santam	Non-life	1,491	1.001-10,000
22	Swiss Re	Reinsurer (all lines)	13,741	201-1,000
23	The Co-operative Insurance	Non-life and life	n.a	1,001-10,000
24	Tokio Marine & Nichido Fire Insurance	Non-life	12,890	10,001-50,000
25	Tryg	Non-life	2,455	1,001-10,000
26	Willis Re	Reinsurer (all lines)	3,674	10,001-50,000
27	Zurich (UK)	Non-life and life	22,421	10,001-50,000

<sup>\*</sup>where applicable, as at October 2012, 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

Integration Award	Gold	Gold	Gold	Gold	Gold	Gold	Gold	Gold	Gold	Silver	Bronze	Gold	Gold	Gold	Silver	Silver	Silver	Silver	Silver	Silver	Bronze	Bronze	Silver	Bronze	Bronze	Bronze	Bronze
Change	<del>د</del> اه	<b>←</b> 4	<b>-</b>	რ <b>→</b>	<b>←</b>	N/A	- →	- →	- ←	<b>-</b>	€ €	<b>→</b> 4	<b>←</b>	<b>-</b>	წ <b>←</b>	<b>↑</b>	9 <b>←</b>	<b>→</b> 41	<b>←</b>	<b>←</b>	<b>↑</b>	: <b>→</b>	^ <b>→</b>	ە <b>→</b>	<b>→</b>	N/A	N/A
2011 Ranking	3	c	OI	1	10	N/A	9=	9=	8=	11	13	8=	15	17	18	=16	23	4	20	22	21	19	=16	22	12	N/A	N/A
2012 Ranking	=	=1	=	4	5	9	=7	=7	=7	10	11	12	=13	=13	15	16	17	18	19	20	21	22	53	7	25	56	27
Overall Score	100.00	100.00	100.00	68.67	98.61	98.33	97.33	97.33	97.33	62.65	94.74	94.67	94.44	94.44	93.33	93.06	90.28	86.68	88.00	87.50	86.67	85.96	85.71	85.33	84.72	69.23	<b>66.67</b>
6.2	3	က	က	3	3	3	3	3	က	က	က	က	3	3	က	3	3	က	က	က	က	က	3	3	3	က	3
6.1	3	3	33	3	3	3	3	3	ы	3	3	3	3	3	3	3	3	ы	3	3	3	сı	3	3	3	3	3
5.4	3	33	က	3	3	3	3	3	3	က	બ	က	3	3	3	3	3	3	33	3	က	81	ผ	3	3	ы	3
5.3	3	33	က	3	33	3	3	3	33	က	3	က	3	3	1	3	3	33	3	3	က	0	ผ	3	0	1	0
5.2	3	33	က	3	3	3	3	3	33	က	3	က	3	3	3	3	3	33	33	3	က	ผ	3	3	ы	1	0
5.1	3	33	3	3	3	3	3	3	33	က	1	3	3	3	3	3	3	33	3	3	3	3	ы	3	3	0	3
4.5	H	H	3	3	ы	E	3	3	3	ы	H	01	0	0	က	0	Ø	ы	1	H	01	田	01	3	а	Ħ	H
4:4	H	H	3	3	3	E	Ø	61	3	01	H	01	3	61	3	61	3	3	3	-	1	Ħ	Ħ	1	3	H	H
4.3	H	H	3	3	3	E	3	61	က	3	H	ଧ	3	Ε	3	3	3	3	ы	-	-	Ħ	Ħ	3	3	H	H
4.2	H	H	က	3	3	H	а	3	3	ы	H	3	3	3	3	3	3	က	3	3	-	H	Ħ	3	3	H	H
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# 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. Le	ad 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.	26	1	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.	21	4	0	0	2
1.3	Use research and improve data quality to inform levels of pricing, capital and reserves to match changing risks.	23	1	0	1	2
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.	20	1	3	0	3
1.5	Share our research with scientists, society, business, governments and NGOs through an appropriate forum.	24	3	0	0	0
2. In	form 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.	22	1	1	1	2
2.2	Promote and actively engage in public debate on climate change and the need for action.	24	3	0	0	0
2.3	Support work to set and achieve national and global emissions reduction targets.	22	4	0	1	0
2.4	Support Government action, including regulation that will enhance the resilience and reduce the environmental impact of infrastructure and communities.	22	3	0	0	2

		Full Disclosure & Compliance	Full Disclosure & Partial Compliance*	Full Disclosure & No Compliance*	No Disclosure & No Compliance	Explanation
2.5	Work effectively with emergency services and others in the event of a major climate-related disaster.	16	5	1	0	5
3. Su	pport climate awareness a	mongst our cus	tomers			
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	1	1
3.2	Encourage our customers to adapt to climate change and reduce their greenhouse gas emissions through insurance products and services.	23	2	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.	17	4	0	0	6
3.4	Consider how we can use our expertise to assist the developing world to understand and respond to climate change.	15	4	1	1	6
4. Inc	corporate climate change i	nto our investm	ent 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.	13	4	2	0	8
4.2	Encourage appropriate disclosure on climate change from the companies in which we invest.	16	2	1	0	8
4.3	Encourage improvements in the energy-efficiency and climate resilience of our investment property portfolio.	13	3	2	0	9

		Full Disclosure & Compliance	Full Disclosure & Partial Compliance*	Full Disclosure & No Compliance*	No Disclosure & No Compliance	Explanation
4.4	Communicate our investment beliefs and strategy on climate change to our customers and shareholders.	10	6	3	0	8
4.5	Share our assessment of the impacts of climate change with our pension fund trustees.	7	8	1	3	8
5. Re	duce the environmental in	npact of our bus	siness			
5.1	Encourage our suppliers to improve the sustainability of their products and services.	24	1	1	1	0
5.2	Measure and seek to reduce the environmental impact of the internal operations and physical assets under our control.	23	2	1	1	0
5.3	Disclose our direct emissions of greenhouse gases using a globally recognised standard.	21	1	2	3	0
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.	22	5	0	0	0
6. Re	port 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.	24	3	0	0	0
6.2	Publish a statement as part of our annual reporting detailing the actions that have been taken on these principles.	27	0	0	0	0

## Appendix E

## One page score template

Sub-	Principle	2012 score
	ripal 1: Lead in risk analysis	
	support and undertake research on climate change to inform our business strategies and help to protect our customers' and other takeholders' interests.	0
	support more accurate national and regional forecasting of future weather and catastrophe patterns affected by changes in the arth's climate.	
1.3 U	Jse research and improve data quality to inform levels of pricing, capital and reserves to match changing risks.	
	Evaluate the risks associated with new technologies for tackling climate change so that new insurance products can be considered in parallel with technological developments.	
	hare our research with scientists, society, business, governments and NGOs through an appropriate forum.	
Princ	riple 2: Inform public policy making	
	Vork with policy makers nationally and internationally to help them develop and maintain an economy that is resilient o climate risk.	
2.2 F	romote and actively engage in public debate on climate change and the need for action.	
2.3 S	support work to set and achieve national and global emissions reduction targets.	
	support Government action, including regulation, that will enhance the resilience and reduce the environmental impact of infrastructure and communities.	
2.5 V	Vork effectively with emergency services and others in the event of a major climate-related disaster.	
rinc	riple 3: Support climate awareness amongst our customers	
.1 I	nform our customers of climate risk and provide support and tools so that they can assess their own levels of risk.	
p	Encourage our customers to adapt to climate change and reduce their greenhouse gas emissions through insurance products and services.	
n	ncrease the proportion of repairs that are carried out in a sustainable way through dialogue with suppliers and developers and nanage waste material appropriately.	O
	Consider how we can use our expertise to assist the developing world to understand and respond to climate change.	
rinc	riple 4: Incorporate climate change into our investment strategies	
	Consider the implications of climate change for company performance and shareholder value, and incorporate this information not our investment decision-making process.	O
	Encourage appropriate disclosure on climate change from the companies in which we invest.	
-	Encourage improvements in the energy-efficiency and climate resilience of our investment property portfolio.  Communicate our investment beliefs and strategy on climate change to our customers and shareholders.	
.5 S	thare our assessment of the impacts of climate change with our pension fund trustees.	0
rinc	riple 5: Reduce the environmental impact of our business	
	Encourage our suppliers to improve the sustainability of their products and services.	
.2 N	Measure and seek to reduce the environmental impact of the internal operations and physical assets under our control.	0
.з Г	Disclose our direct emissions of greenhouse gases using a globally recognised standard.	0
	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.	
rinc	ripal 6: Report and be accountable	
	decognise at Company Board level that climate risk has significant social and economic impacts and incorporate it into our business strategy and planning.	
5.2 F	bublish 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 2011.

3 points (disclosure and full compliance)
2 points (disclosure and partial compliance)
1 point (disclosure and no compliance)

o points (no disclosure or compliance)

Movement v 2011

0

U

## Score

The left hand box represents the percentage 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 2011.

93%

+9%

E (Explanation)

**The University of Cambridge Programme for Sustainability Leadership (CPSL)** is an institution within the School of Technology of the University of Cambridge and is dedicated to working with leaders from business, government and civil society on the critical global challenges of the 21st century. CPSL contributes to the University's mission and leadership position in the field of sustainability via a mix of executive programmes and business platforms, informed by world-class thinking and research from the University of Cambridge and other partners.

We have worked closely over many years with HRH The Prince of Wales, who is our Patron, and we are a member of The Prince's Charities, a group of not-for-profit organisations of which His Royal Highness is President.



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