

ClimateWise one year review

**a report on behalf of ClimateWise
by forum for the future**



ClimateWise
REDUCING THE RISK FOR TOMORROW

november 2008

Forum for the Future – the sustainable development group – works in partnership with leading organisations in business and the public sector. Our vision is of business and communities thriving in a future that is environmentally sustainable and socially just. We play our part by inspiring and challenging organisations with positive visions of a sustainable future; finding innovative, practical ways to help realise those visions; training leaders to bring about change; and sharing success through our communications.

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Designed by The Good Agency

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foreword by HRH The Prince of Wales



I am delighted to introduce the first annual review of the insurance sector's ClimateWise Principles. This independent review, and the signatory's commitment to reporting annually against the Principles, takes ClimateWise into new territory for this type of voluntary initiative. When I launched the ClimateWise Principles in 2007 I said that if insurance companies could take a strategic view across all aspects of what they do and look at climate change as part of their whole business, it just might make a difference. There can be few other sectors which are so directly affected by climate change and no other sector takes a longer term or more carefully calculated view of future risk.

This is why I believe that in creating this platform for a different way of thinking, insurance companies are playing a leading role in tackling climate change. It is particularly important that the insurance sector continues to help society take decisions to both mitigate and respond to the realities of climate change. I have stood with families in their devastated houses in Toll Bar, in Rotherham, in Tewkesbury, in Upton on Severn and in Morpeth in Northumberland – their possessions gone, their lives disrupted beyond imagining. I have seen businesses all but wiped out. The insurance sector is uniquely placed to respond to these challenges and its continued commitment is crucial.

Over the past year there has been significant interest in the ClimateWise Principles from all over the world and I have often been asked by political and business leaders about the progress that you, as signatories to the Principles, are making. Over the next year I hope that new companies will join ClimateWise and I look forward to help build this initiative into a truly global force for change. This is just the beginning of the process of real change and I urge signatories to continue their endeavours to embed their response to climate change across their activities.

Climate change affects each and every one of us – we cannot hope simply to “adapt” to climate change. We are all in this together and, for the sake of our children and grandchildren, together we must act – and fast.

A handwritten signature in black ink, appearing to read "Charles", with a long horizontal flourish underneath.

foreword by Andrew Torrance, chairman of ClimateWise



As Chairman of ClimateWise, I am very pleased to be leading this industry collaboration in its vital efforts to reduce the risk of climate change for us all.

The ClimateWise members include many global insurance companies. In the UK, ClimateWise members account for 60% of the general insurance sector, and approaching 50% of the life insurance sector. I look forward to welcoming new members as they join the insurance industry's response to the risk of climate change.

Since its inception, the key component of ClimateWise that differentiates it from other voluntary initiatives is the commitment by all members to report, in public, on their actions against the ClimateWise Principles. It is therefore a significant achievement after this first year that all 41 ClimateWise members have honoured that commitment and a testament to all members' dedication to tackle this unprecedented challenge.

We appointed an independent organisation, the UK sustainable development charity Forum for the Future, to carry out this annual review to provide us with an objective assessment and validation of what has been achieved by ClimateWise members in this first year; recognising that climate change presents us with new and difficult challenges, it is important that we use this opportunity to take stock. In particular, we sought an analysis of the success stories that all members might learn from, as well as the key areas for improvement in the future.

I am very grateful to the team at Forum for the Future, led by Alice Chapple, for the rigorous and valuable work they have put into this review. My thanks also go to the ClimateWise Secretary, Andrew Voysey, for co-ordinating all the necessary stakeholders and ensuring that the process delivered such a useful account.

The ClimateWise Principles are intentionally holistic and for many members the first step in this first year has been to embed them across all aspects of their business strategy. The focus in the coming year must be on increasing members' delivery against all the principles. Second, we shall look to extend the reach and influence of ClimateWise in order to enhance the insurance industry's contribution to moving this planet on to a path where the risk of climate change is substantially diminished.

I hope you find this review as interesting and helpful as I do. I urge you to keep informed about members' ClimateWise activities via our website (www.climatewise.org.uk) as we respond to the review's key findings and continue to work together to reduce the risk of climate change for us all.

Andrew Torrance

executive summary

Insurance companies are at the forefront of the fight against climate change. They have to assess what impacts climate change will have across their business, and price their products to reflect the developing awareness of the risk it poses. They also have strong vested interests in reducing that risk by supporting the transition to a low-carbon economy. So the sector has a vital role to play in the response to climate change across the whole economy, helping society to mitigate its effects and adapt to a changing world.

The ClimateWise initiative was launched in September 2007. Its aim is to encourage insurance companies to respond to the challenge of climate change as quickly and effectively as possible. It currently has 41 members from different parts of the insurance sector. The ClimateWise members include many global insurance companies. In the UK, ClimateWise members account for 60% of the general insurance sector, and approaching 50% of the life insurance sector.

The six ClimateWise Principles are designed to cover all aspects of the insurance industry's response to climate change:

- Lead in risk analysis
- Inform public policy-making
- Support climate awareness amongst customers
- Incorporate climate change into investment strategies
- Reduce the environmental impact of the business
- Report and be accountable.

The complete wording of the Principles is on page 12.

By signing up to ClimateWise, insurance companies demonstrate their commitment, individually and collectively, to make constant progress on this agenda. The credibility of the initiative depends on a clear reporting process and independent verification to confirm that members are taking genuine action. The ClimateWise Managing Committee has commissioned Forum for the Future to carry out this independent review.

the independent reviewer - forum for the future

Forum for the Future is a not-for-profit sustainable development group. We work in partnership with more than 130 leading organisations in business and the public sector, helping them to devise more sustainable strategies and deliver these in the form of new products and services.

Our vision is of business and communities thriving in a future that is environmentally sustainable and socially just. We believe that a sustainable future can be achieved and that it is the only way business and communities will prosper, but that we need bold action now to make it happen. We play our part by inspiring and challenging organisations with positive visions of a sustainable future; finding innovative, practical ways to help realise those visions; training leaders to bring about change; and sharing success through our communications.

what are ClimateWise members doing well?

- The leading companies are keenly focused on the climate agenda. They clearly see the relevance of climate change to their core strategy and are embedding it across their business. The action that the emerging leaders have taken over the past year is highlighted in the boxed case studies in this report.
- The majority of ClimateWise members are providing insurance for products and services relating to clean technology, giving valuable support to this vital growth area. This is explored in more detail in the section on Principle 1.
- Most members are also finding ways to encourage customer awareness of climate change. Half have designed products and services to help customers to reduce their carbon emissions, particularly in the transport and property sectors. The section on Principle 3 provides more information.

what needs improvement?

- Fewer than half the members reported on the progress they are making on incorporating climate change into their investment strategies and how they assess its impacts on company performance and shareholder value. Members who feel this is not relevant to their business should demonstrate that they have comprehensively assessed the potential areas of risk. The section on Principle 4 looks into this in more detail.
- Some ClimateWise members are just embarking on their climate change strategy and their first steps involve measuring and reducing their own emissions, as outlined in the section on Principle 5. They will need to report meaningful progress on this for the 2008-9 review.
- Some reports offered very little information. Members should provide a more systematic commentary on the relevance of each element of the Principles, to enable a more open debate about their relevance across the sector. The section on Principle 6 looks at this and at other elements of reporting and accountability.



recommendations

Despite some good work and some good examples of activities which have changed behaviour, members' initiatives are not yet creating transformation at a pace which reflects the urgency of the problems posed by climate change. Here are key recommendations:

(1) Members should consider systemic risk to the economy caused by carbon-intensive industries

The reliance of society on carbon-intensive industries creates climate risk, which will have a negative impact on all areas of the economy, including the insurance sector. However, these industries are still commercially viable at current carbon prices and will almost certainly form an important part of the economy for years to come. Current business models within the insurance industry offer no incentives to link the evaluation of short-term risk with the long-term systemic risk arising from climate change. Many insurance companies are calling for government action to create these incentives.

But, in the absence of a robust carbon price and/or regulation, insurance companies, in common with other parts of the economy, should take into account long-term risk in their business decisions. This is clearly a difficult and controversial area, but conversations about this need to take place if we are to find solutions to the urgent challenges we face. (Principle 1, Observation 2, page 18)

(2) Members should engage policy-makers, business and individuals by creating future scenarios

One of the barriers to dramatic action to combat climate change is that, faced with uncertainty, society tends to project business as usual. ClimateWise members recognise that this is not an option. They can help overcome this barrier by creating and communicating scenarios showing how the economy and the insurance industry are likely to evolve under different policy choices (possibly building on work done by some members, such as the ABI). This can support government action to underpin strict emissions targets. It can also help to encourage business and individuals to take action to reduce their own emissions and to understand the need for stronger policy interventions. (Principle 2, Observation 2, page 20)

(3) Members should take responsibility for educating their customers on climate change risks

Some ClimateWise members have started to take responsibility for making their clients aware of climate change risks and to provide products and services which promote reduction in carbon emissions. All ClimateWise members should take this approach, to bring about a swifter change to a low-carbon economy. This type of action can generate greater customer loyalty by reducing the need for claims and/or the cost of premiums. (Principle 3, Observation 1, page 22)

(4) Members should develop products and services in new areas

Members should look beyond the current focus on insurance for catastrophe, property, vehicles and new technologies. No members explored in their reports how climate change will impact on corporate liability, and the role of liability insurance in changing behaviour. We are likely to see increased demand for company directors to demonstrate that they are taking appropriate action, both to reduce emissions and to manage the risks to their business from climate change. Insurance companies should ask for evidence of corporate strategies to assess and manage climate change risk when writing and pricing liability policies. Carbon markets insurance and forest insurance are other areas which need to be explored and developed. (Principle 3, Observation 4, page 23)

(5) Members should assess the materiality of climate risk to investments

Some members do not view climate change as a material risk to their investments, judging from their responses on how they are incorporating it into their investment strategies. This may be because of the size and nature of funds they have invested, because they have not fully explored the links between climate change and shareholder value, or because they view climate change as a long-term issue. Members need to look more deeply at the scale and nature of climate risk to their investments and consider whether they should challenge any of their own assumptions. (Principle 4, Observation 1, page 25)

(6) Members should make pension fund trustees aware of climate change risk

ClimateWise members have committed to engaging with their own pension fund trustees about the implications of climate change for company performance and shareholder value, but very few have done so. Climate change should be viewed as a fundamental driver of company performance and shareholder value, and fund trustees should ensure that employees' pensions are protected by a comprehensive investment strategy. (Principle 4, Observation 4, page 26)

features of this review

Various aspects of the review need to be noted, particularly because this is the first ClimateWise annual review:

ClimateWise members are at various stages

The ClimateWise members are at very different stages of the journey towards embedding climate change into their activities. Some members have been taking climate change into account for several years, while others are only just starting. Signing up to ClimateWise indicates a commitment to take strong action on this agenda in a way that is appropriate to the company's size and activities. Different members view the ClimateWise initiative in different ways: an opportunity to highlight what they are doing, to learn more about what their peers are doing, or to encourage greater internal focus on the agenda. All of these are good reasons for signing up to ClimateWise. But by joining the initiative, all of the companies concerned have agreed to provide evidence of continuing progress.

Members vary widely in size and in their insurance activities

The members cover all aspects of the insurance industry: health insurance; motor and domestic insurance; commercial property insurance; personal liability insurance; life insurance, reinsurance and broking. Some members are associations representing a wider group of companies. Seventeen of the 41 members are managing agents within the Lloyd's of London market. The members range in size from less than 50 employees to more than 200,000 employees. The ClimateWise initiative is relevant to all players within the diverse insurance industry but members' responses will differ according to their size and activities. A summary of members' size and activities is at Appendix 1.

Members were not required to produce stand-alone reports

When ClimateWise was set up, it was recognised that its credibility and usefulness would be greatly enhanced by requiring members to report against the Principles. This obligation differentiates ClimateWise from a number of other voluntary initiatives. However, in this first year the members were not required to produce a separate stand-alone report. (This was to reduce the work-load required from members to produce the annual ClimateWise report,

especially where companies are already reporting to a number of different audiences on this topic or the member has limited resource.) As a result, it was not always possible for the reviewer to tell what activities a member had in place to respond to each element of the Principles. This was partly addressed through conversations with some members and by allowing members to comment on the scorings provided. This meant that adjustments could be made when additional information provided evidence of further activities.

The reports broadly cover 2007-8 activities but there is some flexibility

The members were asked to provide information on their recent activities, broadly reflecting the year since the launch but with flexibility to allow for varying timetables for financial and other reports. Many of the activities covered under the ClimateWise Principles relate to ongoing internal processes such as risk analysis and investment strategy, and ongoing external processes such as engagement with government, customers and employees. A member's annual report to ClimateWise needs to comment on whether the company (still) has these processes in place. It also needs to highlight new actions that improve their quality, as well as disclosing new initiatives. For some ClimateWise Principles – for example climate-friendly products and services – this first year's submissions have tended to report on all of the products and tools in place.

The current financial crisis changes the context but not the relevance

This review is being undertaken at a time of tremendous turbulence in financial markets. It is not clear at the time of writing how all members will be affected. Certainly, many companies are busy managing uncertain market conditions. Some might take the view that climate risk recedes in importance in comparison with structural and systemic market risks. But many companies recognise that the reasons for assessing and managing climate risk across all of their activities are as strong as ever. The current financial turmoil provides an opportunity to completely revisit perceptions of risk and consider in greater detail how fundamental future trends such as climate change could have an impact at least as deep as the current crisis. And in a downturn there is a particular need to ensure that a business is as energy-efficient and waste-conscious as possible, in order to manage costs more effectively.



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the

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methodology for the review

In completing this report, Forum for the Future:

- reviewed the reports submitted to the ClimateWise Secretariat by the 41 ClimateWise members, relating to the 2007-8 year
- prepared a summary of the disclosure that each member made in respect of each element of the six ClimateWise Principles (see Appendix 3)
- prepared a summary of the compliance of each member with each element of the six ClimateWise Principles (see Appendix 4), noting why certain elements are not relevant to particular members
- gathered case studies from the reports
- had conversations with 25 of the 41 members (61%) to clarify issues relating to their submissions, to get more information, and to gather additional insights
- analysed and summarised the findings to produce this report
- through the ClimateWise Secretariat, circulated the report amongst members to get comments on the accuracy of the scoring and other feedback
- revised the report to allow for additional information and to correct errors where relevant.

The methodology is outlined in detail in Appendix 2.

the ClimateWise Principles

Working individually and collectively to reduce the economy's and society's long-term risk from climate change, and within the confines of a competitive market, we will:

1 lead in risk analysis

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

2 inform public policy making

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

3 support climate awareness amongst our customers

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

4 incorporate climate change into our investment strategies

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

5 reduce the environmental impact of our business

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

6 report and be accountable

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



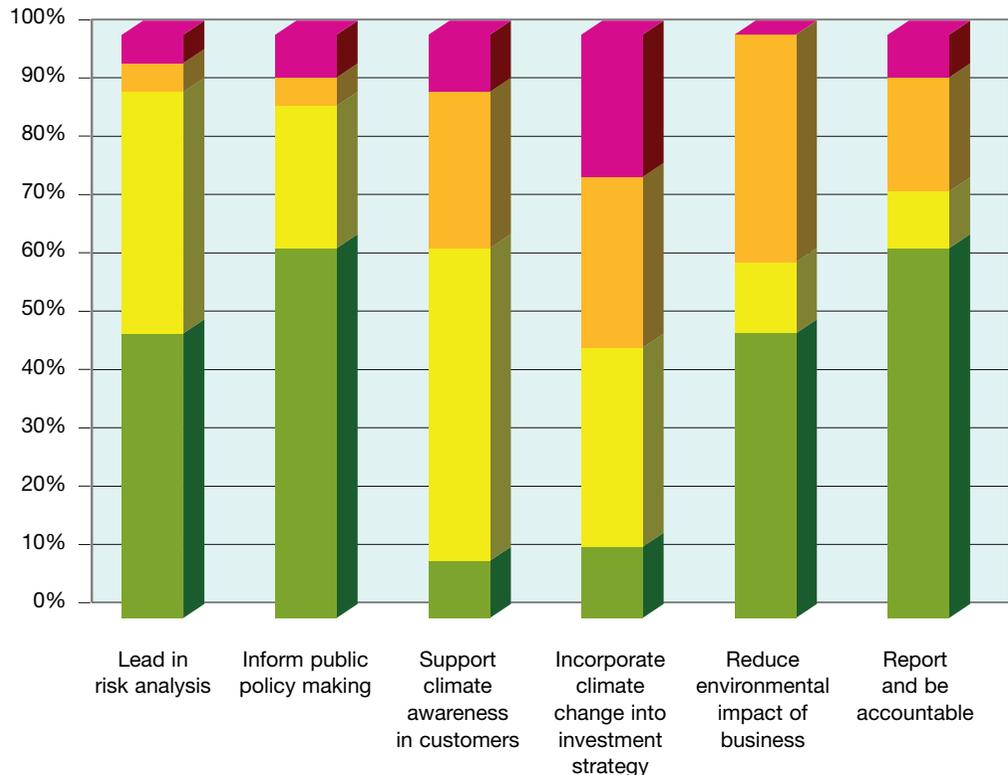
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overall compliance

Members were rated on their compliance with each element of the Principles and the scores were then summarised (see the detailed methodology at Appendix 2).

fig 1. Current compliance by ClimateWise members



Principles

- No evidence of compliance or progress
- Partly comply or show progress
- Substantially comply with the Principle
- Fully comply with the Principle (or explain)

summary of findings

- The results show that the vast majority of the ClimateWise members are taking meaningful action in support of the ClimateWise Principles. Even though members were not asked to provide details of actions against each element of the Principles, the majority of members were able to demonstrate to the reviewers that they are embedding the Principles in their business. The various companies are at very different stages of the journey but there is evidence of progress at all levels.
- The information provided by members gave many examples of innovation to address climate change over the year since ClimateWise started. The leaders were determined through calculating the scores of all of the submissions according to their compliance with each of the areas of the ClimateWise Principles, or their explanations why a particular Principle did not apply. For each of this year's 'leader' members, we have included a boxed case study in the report.
- While many of the companies that have signed up to the initiative already play a leading role in activities to address and respond to climate change, others have joined the initiative to learn and to improve. Not all could have been expected to achieve compliance in this first year. But it is equally important to note that full compliance in one year is not the end of the journey: to achieve full compliance in each year, members will need to continue to develop their approach to each Principle.
- A small number of reports contained no detailed information on the member's activities in support of the Principles, except to disclose ad hoc actions to reduce emissions. For these members, this appears to reflect a lack of activities and not simply a lack of disclosure. Although these members can argue in this first year that they have not yet embarked on embedding the Principles, they will be expected to take significant steps during 2008-9 and report on them.
- Less than half of members reported on processes in place to consider the implications of climate change on company performance and shareholder value. For some companies, the size of funds invested is very small. Some reported that they did not view climate risk as relevant to the types of financial instrument they hold. Others noted that they outsourced investment decisions and therefore had no control. While some of these comments may be

valid, a number of members are challenging these assumptions with the measures they have put in place. In future years, members could usefully provide more detail on why they have adopted a particular approach.

- Some areas that are critical to the fight against climate change featured only very thinly in the ClimateWise reports. For example, only two reports referred to insurance products for the carbon market or for forests, and there was very little discussion of how offers of insurance can be linked more effectively to climate-resilient specifications. The impact of climate on liability insurance also did not feature in the reports. It is likely that several members are active in these areas but did not reflect this in their reports. More focus in reports on the activities and opportunities in these important areas could help to generate greater awareness and further innovation.
- It will be useful to see each member offering a more systematic commentary on how they see the relevance of each element of the Principles, to enable more effective discussion of how climate risk is being addressed across the whole industry.

observations from forum for the future

ClimateWise's sector-specific approach and commitment to reporting make it particularly valuable

There are a number of voluntary initiatives in the financial sector and elsewhere, outlining the types of business behaviour that should be pursued to lead to desirable outcomes. Examples include the Global Compact¹, the Principles for Responsible Investment² and the Climate Principles³. In our view, the ClimateWise initiative is an important development for two main reasons. Firstly, it is designed to relate directly to the strategic business risks and opportunities arising from climate change in one particular sector. Secondly, members are committed to reporting in some detail on their progress against the Principles, enabling others to review how individual companies, and the insurance sector in general, are responding to the climate challenge.

Members' compliance with each ClimateWise Principle is explored in more detail in the separate sections below.

¹ See <http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html>

² See <http://www.unpri.org/principles/>

³ See <http://www.theclimategroup.org/assets/The%20%C2%BAClimate%20Group%20Principles.pdf>



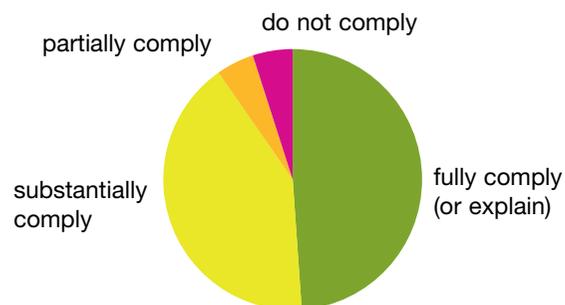
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Principle 1 – lead in risk analysis

- 1a Support and undertake research
- 1b Support more accurate forecasting
- 1c Use research to inform pricing, capital and reserves
- 1d Evaluate risks of new technologies
- 1e Share research with others

fig 2. Compliance with principle 1 - % of members that:



summary of findings

- For some members, and in particular the large reinsurance companies, climate risk is a fundamental driver of value that has been embedded in risk analysis for several years. The work that these companies are doing to progress knowledge and improve the availability and application of climate data is critical in ensuring that individuals and businesses can obtain cover for climate events, and to enable the insurance companies themselves to meet their liabilities.
- Several members provided examples of research they are undertaking on climate, as well as examples of how they are working to combine scientific research and practical information to inform strategic action in the insurance industry. For example, in September 2008, **Catlin** announced that it is sponsoring the explorer Pen Hadow and others to gather data from the Arctic ice sheets. This will provide valuable information on the speed and scale of climate change.

- Climate is less directly relevant to the day-to-day business of some members than others. The best submissions to ClimateWise provided an honest assessment of the risks and opportunities within their own business and gave a view of the nature and timing of research and modelling work to establish how climate risks will play out within their particular area of operations.

Lloyd's of London and AIG - catastrophe modelling forum (CMF)

Lloyd's of London, AIG, the Insurance Information Institute and Harvard Medical School set up a forum to share information on catastrophe modelling and with the aim of improving the ability of the industry to provide effective cover. Munich Re also provided considerable additional support, sponsoring and contributing a research paper. At a meeting in June 2008, the Catastrophe Modelling Forum brought scientists and insurers together to discuss perils such as drought, heat waves, wildfires, coastal and inland floods, winter storms, and windstorms. Droughts affect more people than any other natural catastrophe and result in losses of \$6-\$8 billion annually. In future meetings, CMF intends to consider the biological responses to climate change (for example, the spread of forest pests, crop and animal diseases, floods and mould, and coral bleaching), which can increase vulnerability to damage from natural catastrophes. It will also investigate ways of mitigating climate risks, including building codes; land use/development planning; care for wetlands and estuaries (which improve resilience, coping and adaptation); and emergency planning. In its work, the CMF takes account of the different time horizons that are relevant to property and casualty insurance, life and health insurance, directors' and officers' liability insurance, and asset management.

- **Unum**, as a health insurer, reported on the potential for climate change to affect the profile of health risks. The Unum report noted that the major shifts in morbidity and mortality in the short term are likely to take place in the developing world, through changes in infectious and waterborne diseases. These impacts are outside the company's markets. But it also noted impacts in the industrialised world that could significantly affect health – for example, changes in heating and ventilation and the physical and mental stresses

brought on by increasingly extreme weather events, whether heat, rainfall or drought. Unum supports ongoing research in this area to enable the company to make the best decisions.

RMS – climate change risk screening service

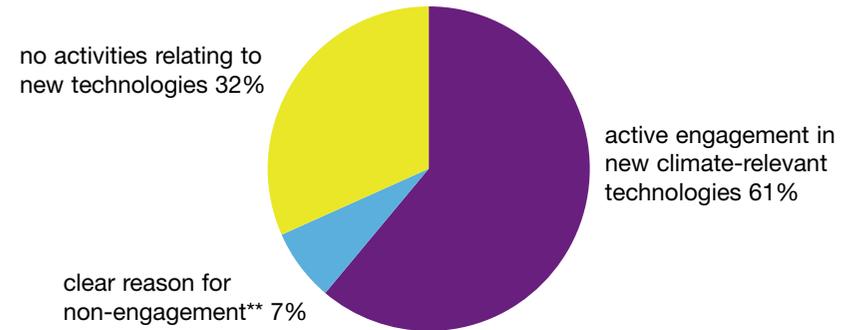
In August 2008, Risk Management Solutions (RMS) announced the launch of a new service to identify the potential physical impacts of climate change on a company's property and operations.

The RMS® Climate Change Risk Screening Service uses RMS's proprietary natural catastrophe models. It calculates the risk of physical damages and business interruption from climatic events today and then "stress tests" the impact of potential future scenarios on business portfolios. RMS then identifies hotspots of future risk by combining this information on the impacts of climate change with a range of physical and operational measures to assess a company's vulnerability - for example, its capacity to adapt, its resilience, and the sensitivities of its suppliers.

The service gives customers key risk factors for each property and operation within a portfolio, and a ranking of the properties most at risk to help prioritise action.

- Relatively few members reported explicitly on how research and improved data quality inform the levels of pricing, capital and reserves to match developing risks. In some cases, this may be because this is a source of competitive advantage.
- The majority of members reported that they were actively engaged in identifying the risks inherent in new technologies and offering appropriate insurance. Companies reported on a range of technologies relevant to their activities: for example, cover for wind turbines and solar panels on homes; large-scale renewable energy projects; hybrid and other energy-efficient cars; and biofuels.

fig 3. Engagement with new technologies to combat climate change



** The clear reasons for non-engagement include

- the member is an industry body or association and does not have activities in this area
- the member is very small and young and its products are not yet fully in place
- the member only provides life and pensions products so it looks at the risks and opportunities arising from new technologies in the context of investment (covered in Principle 4) rather than insurance products

observations from forum for the future

(1) Collaboration and competition both have an important part to play

During the course of the research, a number of people commented on how insurance companies need to find the right balance between individual competitive advantage and collaboration. ClimateWise members are not only developing joint initiatives but are also striving to lead the field in developing strategies to show customers and shareholders that they are best positioned to respond to the challenge of climate change. Both are vital contributions.

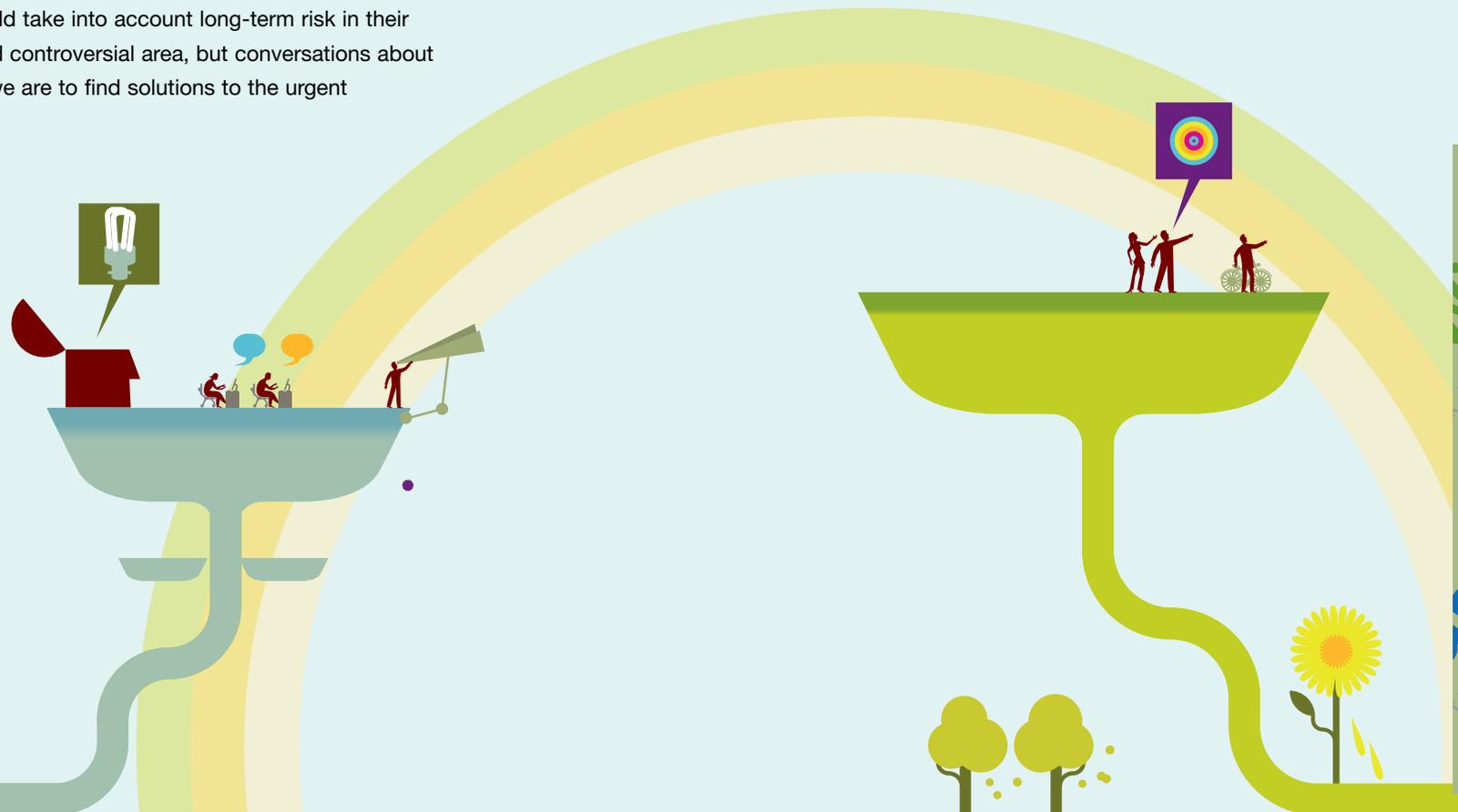
(2) Members should consider systemic risk to the economy caused by carbon-intensive industries

The reliance of society on carbon-intensive industries creates climate risk, which will have a negative impact on all areas of the economy, including the insurance sector. However, these industries are still commercially viable at current carbon prices and will almost certainly form an important part of the economy for years to come. Current business models within the insurance industry offer no incentives to link the evaluation of short-term risk with the long-term systemic risk arising from climate change. Many insurance companies are calling for government action to create these incentives.

But, in the absence of a robust carbon price and/or regulation, insurance companies, in common with other parts of the economy, should take into account long-term risk in their business decisions. This is clearly a difficult and controversial area, but conversations about the underlying dilemmas need to take place if we are to find solutions to the urgent challenges we face.

(3) Each ClimateWise member could provide a more detailed commentary on relevance and risk for their own activities

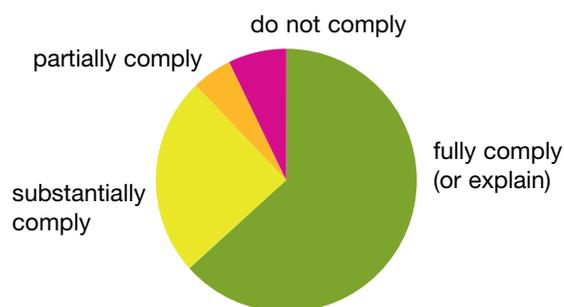
One goal of the ClimateWise initiative is to encourage wider debate about the relevance of climate risks across the insurance industry's activities. For some insurance and reinsurance companies the importance of risk analysis and high quality data is clear. However, some members see less direct relevance to their business: these companies need to state their position more clearly in future ClimateWise submissions as this will stimulate a more open debate.



Principle 2 – inform public policy making

- 2a Work with policy makers nationally and internationally
- 2b Promote and actively engage in public debate
- 2c Support work on emissions reduction targets
- 2d Support Government action towards resilience
- 2e Work with emergency services

fig 4. Compliance with principle 2 - % of members that:



summary of findings

- Most members reported engagement of some kind with the public debate. Most of the Lloyd's members referred to their support for Lloyd's' activities in this area: this is an effective way in which smaller companies can engage with and influence the public policy agenda.
- The types of public policy intervention varied according to the type of business. For example:
 - **Munich Re** organised a side event at the meetings of the Conference of the Parties in Bali in December 2007 in order to highlight issues where the insurance industry requires public policy intervention.
 - **AIG** actively engaged in public debate in various ways during the year, for example through its involvement in the Forest Carbon Dialogue.

- **Zurich** produced a flood guide for Gloucestershire County Council, offering practical advice on potential emergency situations. The information was provided by community groups, flood victims and the emergency services, and was based on the experiences and lessons learned from the 2007 floods.

ABI – flooding and insurance

A new agreement setting out a long-term approach to the provision of flood insurance was launched in July 2008 by the Association of British Insurers and the government. It reflects expert views that the key issue is not the provision of flood cover today but putting in place measures which will ensure that flood cover can continue to be widely available and affordable in the future, and which will enable the removal of the market distortion caused by the existing Statement of Principles. The new agreement sets out a series of government actions to achieve this.

The agreed approach means moving away from a three-year approach to flood risk management funding. Instead, the Environment Agency will publish a paper setting out a range of options for protecting the country over the next 25 years, the objectives (for example, 99% of homes covered) and the costs. The agreement also covers extensive work to tackle surface water flooding, including the newly proposed Floods Bill; easier access to better risk data and Environment Agency five-year plans; and a full published evaluation of planning policy by early 2009. In addition, exclusion from flood insurance of properties built from 2009 onwards puts the onus on developers to ensure their development is insurable.

- Several ClimateWise members play important roles in groups focusing on climate change and calling for governments to take more action to bring about reduced emissions:
 - **AXA, Allianz, Lloyds TSB, AIG, RSA** and **F&C Asset Management** signed the Bali Communiqué of the Corporate Leaders' Group on Climate Change;
 - The Co-operative Insurance Society and F&C Management Ltd are members of the Institutional Investors Group in Climate Change, as are Insight Investment (part of **HBOS**), PRUPIM (part of **Prudential**) and Morley Fund Management (part of **Aviva**);

- **AIG Investments** and **F&C Asset Management** are members of the International Network on Climate Risk;
- **AIG, Allianz, ABI, Munich Re** and **Swiss Re** participate in the Global Roundtable on Climate Change;
- **AIG** participates in the US Climate Action Partnership;
- **Swiss Re** is a member of The Climate Group and MORE TH>N (part of **RSA**) is an associate.
- **ABI** plays an active role in several groups, including the London Climate Change Partnership, the CEA Natural Hazards Working Group / Climate Change Task Force, the Climate Change Commission for Wales - Adaptation Sub-Committee and Defra's Climate Change Risk Assessment and Cost-benefit Analysis Steering Group.

observations from forum for the future

(1) It can be hard to identify the right point to intervene in the policy process

The large reinsurance companies are familiar with the policy-making processes, but most other insurers are not aware of the suitable points for intervention, nor the most effective way of targeting public policy at a national, regional or global level. They may need more guidance to enable them to engage effectively with governments and to coordinate global responses.

(2) Scenarios for the future can help to change policy and behaviour

Governments in the US, the UK and elsewhere make statements about the need to reduce emissions by 80% by 2050. However, the current trajectory for carbon emissions suggests that we will be unable to achieve this target and therefore will not be able to prevent the global average temperature increasing by more than 2°C. Calls for reductions are often not set in the context of the alternatives. Through creating and publicising scenarios for the future, leading insurance companies can support public policy further by showing how

different policy choices might play out. This could also enable governments to explain more effectively to people why certain policy choices are the right ones for the long term. Recent work by Forum for the Future, depicting a number of climate change scenarios⁴, could potentially be tailored for the insurance sector as a starting point, and also be combined with work undertaken by ABI⁵ in the past.

⁴ See the report *Climate Futures* at <http://www.forumforthefuture.org/projects/climate-futures>

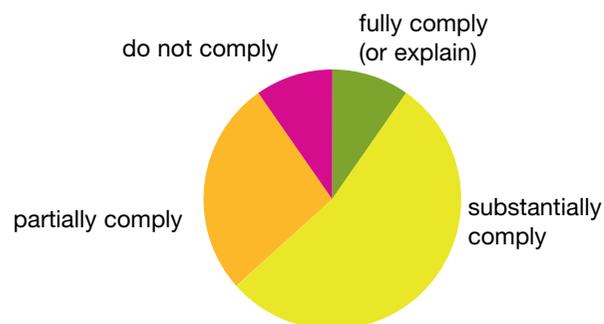
⁵ See, for example, *A Changing Climate for Insurance*, ABI, June 2004; *Financial Risks of Climate Change*, ABI, June 2005 (update due 2009)



Principle 3 – support climate awareness amongst customers

- 3a Inform customers of climate risk and provide tools
- 3b Encourage customers to adapt to climate change and reduce emissions through insurance products and services
- 3c Increase sustainable repairs and manage waste material
- 3d Consider how to use expertise to help developing world

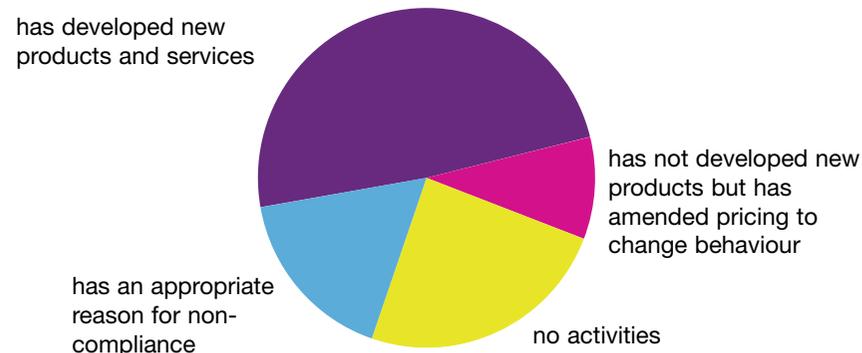
fig 5. Compliance with principle 3 - % of members that:



summary of findings

- Two thirds of members fully or substantially comply with this Principle. Some members see the benefit of making their clients aware of climate risks, which could generate greater customer loyalty by reducing their need to claim and/or reducing their premium. Others argue that their role is simply to insure what the client brings them.

fig 6. Development of new products and services



The Co-Operative Insurance – Climate Change Tracker

To increase customer awareness of climate change, **Co-operative Financial Services** developed a Climate Change Tracker in collaboration with the UK Climate Impacts Programme. This tool shows the likely changes in heat and rainfall in various parts of the UK in 2020, 2050 and 2080. It is available on the internet, with tips on how customers can reduce their impact on the environment.

- One member commented that communications with customers on climate change have to be carefully handled to avoid creating concern.
- Customer surveys by members revealed mixed results: some members said they identified significant interest in climate change and other environmental matters. Two reported, independently, that they have identified a backlash with people who were tired of being exhorted to change their behaviour in the face of climate change.

- Some members reported strong demand from customers for climate-friendly products and services, although others reported that take-up was low. The reports indicated that few new products and services came to market in 2007-8.

RSA - rewarding climate-friendly behaviour

In 2008 MORE THAN (the direct insurance business of RSA) launched Green Wheels - a new insurance product that enables drivers to receive accurate information on their green driving style. It deploys telematics and GPS (global positioning system) technology to monitor factors such as harsh braking, acceleration, time spent stationary with the engine running and the number of short journeys etc. This is the first product available that quantifies the impact of a driver's behaviour on the environment and presents it in a way that supports behaviour change.

- Ten out of the 41 members referred to activities designed to increase sustainable repairs after claims, and improved management of waste material following accident or loss:
 - **RBS Insurance** set an Accident Repair Centre (ARC) target to recycle at least 80% of all ARC waste by the end of 2007 and exceeded that target, recycling 87% of ARC waste in 2007. RBS is now rolling the process out to a further 195 independent repair centres across the UK.
 - **ACE** has a stand-alone property policy that provides cover for commercial businesses which want to rebuild to a greener standard after the loss of an existing building.
 - **Zurich** is targeting its salvage agents to reuse at least 85% of all parts and oil following the total loss of a vehicle.
- Most members had very little to say about how they are using their expertise to help the developing world: only nine members (21%) had initiatives to report. Some referred to their carbon offsets being used to fund projects in developing countries. Others include:
 - **Swiss Re**, which has established a Climate Adaptation Development Programme and in September 2008 announced a partnership with Oxfam America to provide weather insurance for staple cereal crops to farmers in Tigray, Ethiopia.
 - **Munich Re**, which continued to develop innovative ideas through its Munich Climate Insurance Initiative during 2008.

- **RMS India** which has been working with the UK Collaboration on Development Sciences to highlight the need for better weather data for developing countries.
- **Lloyd's of London** which has been engaged in discussions with the UK Government's Department for International Development to explore the scope for public-private collaboration on adaptation.

observations from forum for the future

(1) 'Leader businesses' sometimes need to lead their customers

Leading companies can – and arguably should - play a role in developing awareness amongst customers even if surveys indicate they are not initially interested. Surveys themselves can often develop awareness in customers, and responses depend very much on the way that questions are asked. Several of the ClimateWise members have brought pioneering products to market – for example in vehicle and property insurance - that may have been ahead of demand but that give those companies an opportunity to build and put them in a strong position for sales as the market expands. Companies will naturally be wary of taking on too much commercial risk and moving too far ahead of the market, but the climate change agenda is moving very rapidly.

(2) Customer interaction needs to have the right 'tone'

The best communications provide a rational overview of the challenge posed by climate change and then give the customer practical steps they can take to reduce their own emissions. Companies should pay attention to the tone of communications and avoid those which panic the customer or put them off taking action. 'Doom and gloom' and 'hectoring' messages are likely to be counter-productive.

(3) Existing products, services and pricing options could be shared more widely

The reports do not reflect the full range of activity in the market-place. Only two members mentioned the development of insurance products to enable the carbon markets to work more effectively. Only two mentioned insurance for forests. The reports also contained limited discussion of the pricing strategies employed in response to climate risk: while this is often sensitive because of competitive advantage, there may be scope for sharing more information. It would be good in future to see ClimateWise members report on the widest range of products, services and pricing strategies, consistent with commercial sensitivities, as this is likely to encourage further innovation.

(4) There is scope for development of new products in various areas

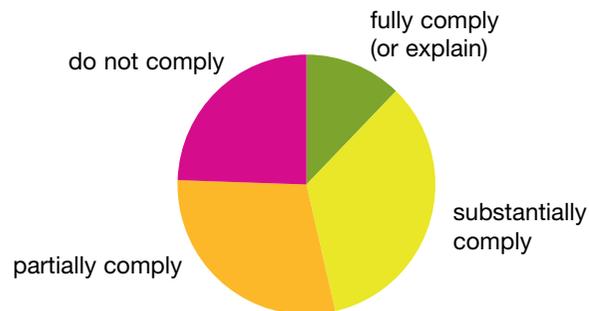
The ClimateWise reports tended to look most closely at insurance for catastrophe, property, new technologies, and vehicles. No members explored how climate change will impact on corporate liability, nor the role of liability insurance in changing behaviour. As we move towards a better understanding of the impacts of climate change, and recognise how certain corporate activities contribute to it, we are likely to see increased demand for directors of those companies to demonstrate that they are taking appropriate action, both to reduce emissions and to manage the risks to their business from climate change. There may also potentially be class actions against large emitters of greenhouse gases or companies whose products lead to large emissions. We are already beginning to see references to ‘reasonably foreseeable’ climate events in a legal context. The insurance sector can help to drive change through the types of liability insurance it writes, and how this is priced.



Principle 4 – incorporate climate change into investment strategies

- 4a Consider the implications of climate change for company performance and shareholder value and incorporate this information into investment decision-making
- 4b Encourage disclosure on climate change by companies
- 4c Encourage improvements in energy efficiency and climate resilience of property investments
- 4d Communicate investment strategy on climate change to investors and shareholders
- 4e Share assessment of impacts of climate change with pension fund trustees

fig 7. Compliance with principle 4 - % of members that:



summary of findings

- Only 28 out of the 41 ClimateWise members disclosed their approach in this area. Out of these, only 20 reported they had investment strategies which consider the implications of climate change for company performance and shareholder value. The other disclosing members reported on why they did not consider this Principle to be relevant to their own activities.

- Of the 20 companies which have incorporated climate change into investment strategy, 12 had their own internal fund managers with a climate strategy in place, five require their outsourced fund managers to consider the implications of climate change in their analysis of company value, and three had undertaken a review of their portfolios to consider where climate risk would have implications for the value of their investments.
- All of the members with substantial funds under management have signed up to the Carbon Disclosure Project. However, not all of these companies mentioned this in their ClimateWise submission.

fig 8. Incorporating climate change into investment strategies



AXA – investing in winners

AXA believes that climate change presents material risks and opportunities for companies across a wide range of sectors and considers it part of its fiduciary duty to identify the winners and losers. Its research (particularly under a newly introduced initiative “RIsearch”) enables it to create and analyse climate change diagnostics of companies.

- Some members referred only to their investments in clean technologies, indicating that they saw this as the primary way in which their investment strategy would impact on climate change.

F&C – responsible engagement

Through its **reo**® programme, F&C encourages the companies in which it invests to identify, manage, and disclose their exposure to climate-related risks and opportunities. **reo**® applies to F&C’s own funds and is also offered as a stand-alone service for other investment institutions. Several other ClimateWise members are **reo**® clients, and use **reo**® to meet their own obligations to incorporate climate change into their investment strategy.

In February 2008, F&C published a report on sustainable biofuels that asked both how climate change would impact the biofuels industry, and how companies could and should respond. The report reflects F&C’s engagement with a number of oil companies and biofuel producers in which F&C or its clients are invested. F&C has also undertaken research on sustainable transport, which reflects its climate change engagement with global auto, shipping, train and air companies.

- Several members explained in telephone conversations that they have very small amounts of funds under management and/or that they only hold low-risk instruments such as government bonds. The scope for them to engage on investment strategies may therefore be limited.

Munich Re – sustainable investment

As early as 2002, Munich Re decided that its investments in shares and corporate bonds had to meet certain sustainability requirements and these were extended to government bonds at the end of 2005. It applies generally recognised criteria such as the Dow Jones Sustainability Index and the sustainability ratings issued by the Oekom Research Agency. Munich Re’s target is for 80% of investments in shares, corporate bonds and government bonds to satisfy its sustainability criteria. At the end of 2007, 83% of Munich Re’s investments met these criteria.

- Some members indicated a concern that taking climate change into account in investment strategy would reduce their financial returns. In particular, some talked about climate change in the context of corporate responsibility, rather than in terms of its implications for company performance and shareholder value.
- Where members had investments in property, there was a wide range of responses. Three reported on work they are doing to improve energy efficiency and climate resilience in their property portfolio, which they believed would enhance the value of their investment. In their view, increasing focus by regulators and consumers on the significant emissions from this sector would make it central to policies supporting reduction. For example:
 - **PRUPIM** has set up an “Improver Portfolio” to examine ways it can reduce a “typical” property portfolio’s carbon footprint while maintaining or enhancing investment returns.
 - **Legal & General Property** has entered into a partnership with the College of Estate Management to launch a pioneering new training programme that targets the serious issues of sustainability in relation to real estate investment and development. Open to the wider industry, the bespoke workshops explore sustainable solutions that can help to drive down costs on real property developments and can be applied on a case by case basis.

Three other members reported that they are currently researching this area in order to explore the commercial benefits and develop their approach. For others this has not yet become a priority.

- The lowest level of activity and disclosure was around engagement with pension fund trustees. Only six members (15%) noted any activity in this area.

observations from forum for the future

(1) Climate risk should be assessed across the whole portfolio, not only equities

With more than US\$16 trillion in funds under management, the worldwide insurance industry as a whole is in a powerful position to influence how climate change is embedded in company performance. Some ClimateWise members have very limited funds under management but even these should review their portfolios critically to understand in more detail how the value of their investments might be affected by climate change.

Recent research by McKinsey⁶, the Carbon Trust⁷ and Forum for the Future⁸, among many others, highlights the impact on equities. But a wider set of assets may be affected. For example, it would be possible to create scenarios in which greater expenditure on adaptation affects the value of government bonds, or resource constraints arising from climate change create inflationary pressures which affect all assets in different ways. More work is needed to highlight how climate change may fundamentally affect the valuation of all types of asset so that investment managers can consider the need to reassess their portfolios.

(2) Fund managers can be asked to explain their systems for managing climate risk

Many of the members do not manage their own funds and delegate this role to fund managers. Some ClimateWise reports gave this as a reason not to investigate whether climate risk is embedded into investment strategy. ClimateWise members should ask specific questions of their fund managers about how they manage climate risk (and opportunity) in the portfolio as part of a dialogue around the overall strategy of the fund.

⁶ *How climate change could affect corporate valuations*, Brinkman, Hoffman & Oppenheim, *McKinsey on Finance - Perspectives on Corporate Finance and Strategy* Number 29, Autumn 2008

⁷ *Climate change – a business revolution? How tackling climate change could create or destroy company value* – Carbon Trust, September 2008

⁸ See for example *Climate change, valuation and the retail sector*, Forum for the Future, February 2008

(3) Fund manager selection can depend in part on their approach to climate change

Insurance companies select fund managers on the basis of their ability to deliver robust financial returns, and strong financial performance may depend on how they manage climate risk and opportunity in their portfolio. In future reports, it would be good to see how ClimateWise members assess the quality of fund managers in this respect.

(4) Management of climate risk is important in preserving the value of pensions

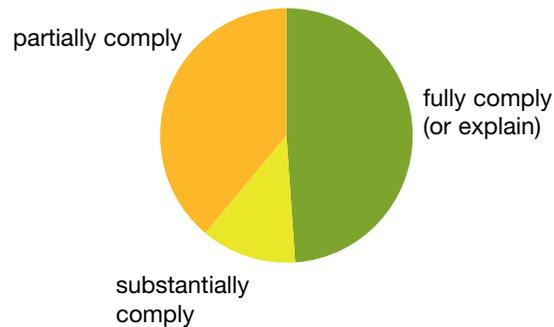
Very few ClimateWise members have communicated with pension fund trustees about the implications of climate change for company performance and shareholder value. This implies a perception that climate change is not yet posing a material risk to company performance. Climate change should be viewed as a fundamental driver of investment value, with a consequent focus on ensuring that employees' pensions are protected by a comprehensive investment strategy. The very low level of response on this point suggests that this is not yet the case.



Principle 5 – reduce the environmental impact of our business

- 5a Encourage suppliers to improve sustainability
- 5b Measure and seek to reduce impact of internal operations and physical assets under control
- 5c Disclose direct emissions of greenhouse gases using globally recognised standard
- 5d Engage employees on commitment to address climate change

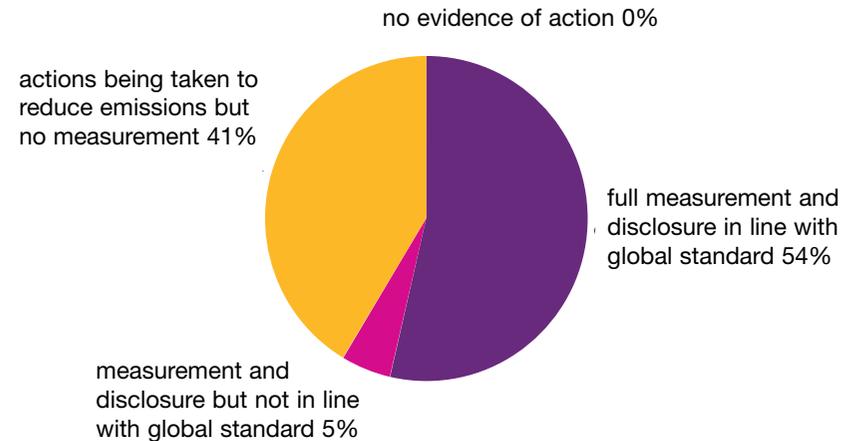
fig 9. Compliance for principle 5 - % of members that:



summary of findings

- All the reports provided examples of members' actions to reduce the impact of their own operations. More than half have put in place a formal system to measure greenhouse gas emissions in line with the Greenhouse Gas Protocol. However, a large minority – 41% - have no formal emissions measurement or reduction targets, although many have plans to remedy this.

fig 10. Measurement and disclosure of carbon emissions



- Twenty-two out of 41 members are encouraging their suppliers to improve sustainability:
 - **Legal & General** requests its suppliers to adopt ISO14001 certification;
 - **Lloyds TSB** chairs the Financial Services Procurement Forum;
 - **Prudential** works with the Supply Chain Leadership Collaboration of the Carbon Disclosure Project and has developed a tool-kit to guide procurement practices.
- A large majority (80%) of members are engaging their employees in the commitment to combat climate change.

Aviva – setting standards for suppliers

Aviva now requires all suppliers to sign the Aviva Supplier Code of Conduct, either on appointment or at contract renewal. The Code covered more than £1.1 billion of procurement activity during 2007. Aviva's top 200 suppliers are assessed against a series of questions designed to measure their commitment to CSR, and each Aviva business must establish a CSR performance improvement plan for its top five suppliers.

Swiss Re – supporting employee investments to cut carbon

Swiss Re's CO_{you 2} Reduce and Gain programme helps employees cut emissions in their private lives. It offers a 50% subsidy on a range of measures to all employees who have been with the company for more than two years. More than 500 employees have taken advantage of this scheme and subsidies for public transport, hybrid cars and energy-efficient appliances have been the most popular in this first year. The eligible purposes vary from country to country in order to maximise the programme's effectiveness in differing local environments.

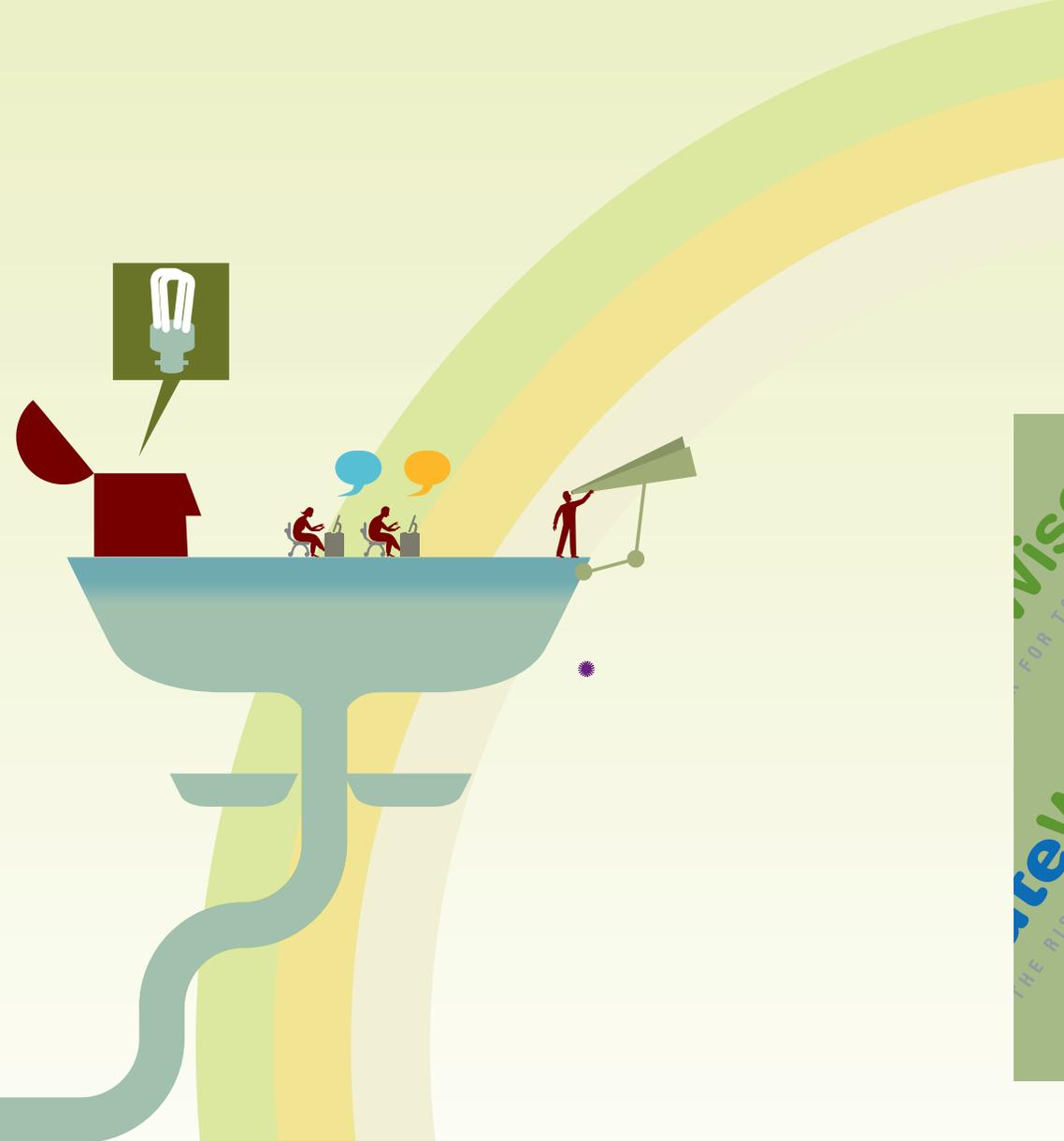
observations from forum for the future

(1) Reduction in companies' direct environmental impacts is a key component

It is critical for the insurance industry to measure and reduce its own environmental impacts because this is so clearly under its own control. Although the industry can make a greater impact on climate change through its activities – risk analysis, development of goods, services and pricing mechanisms, and investment strategies – it would undermine its credibility if it failed to take action on the impact of its own activities.

(2) Incremental targets will not achieve the transformation required

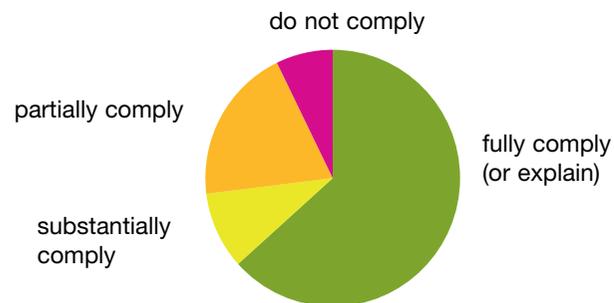
Only a minority of members have put in place targets for reduction in greenhouse gas emissions. These companies deserve credit for making this public commitment. However, even the most ambitious of these targets anticipates only a reduction of 10% in carbon emissions per employee over the next three years. With many scientists now taking the view that actions in the next ten years are critical if we are to avoid dangerous climate change, it is clear that all sectors of the economy will have to make a step change in their efforts to reduce emissions if we are going to achieve the massive scale of the transformation required.



Principle 6 – report and be accountable

- 6a Recognise climate impacts at Board level and incorporate in strategy
- 6b Publish a statement detailing action on these Principles

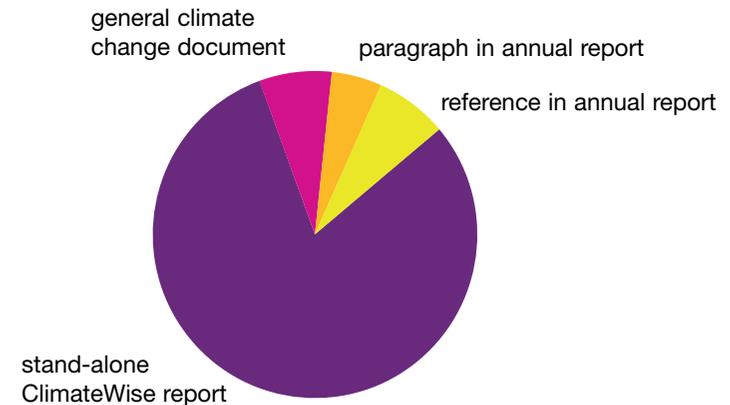
fig 11. Compliance for principle 6 - % of members that:



summary of findings

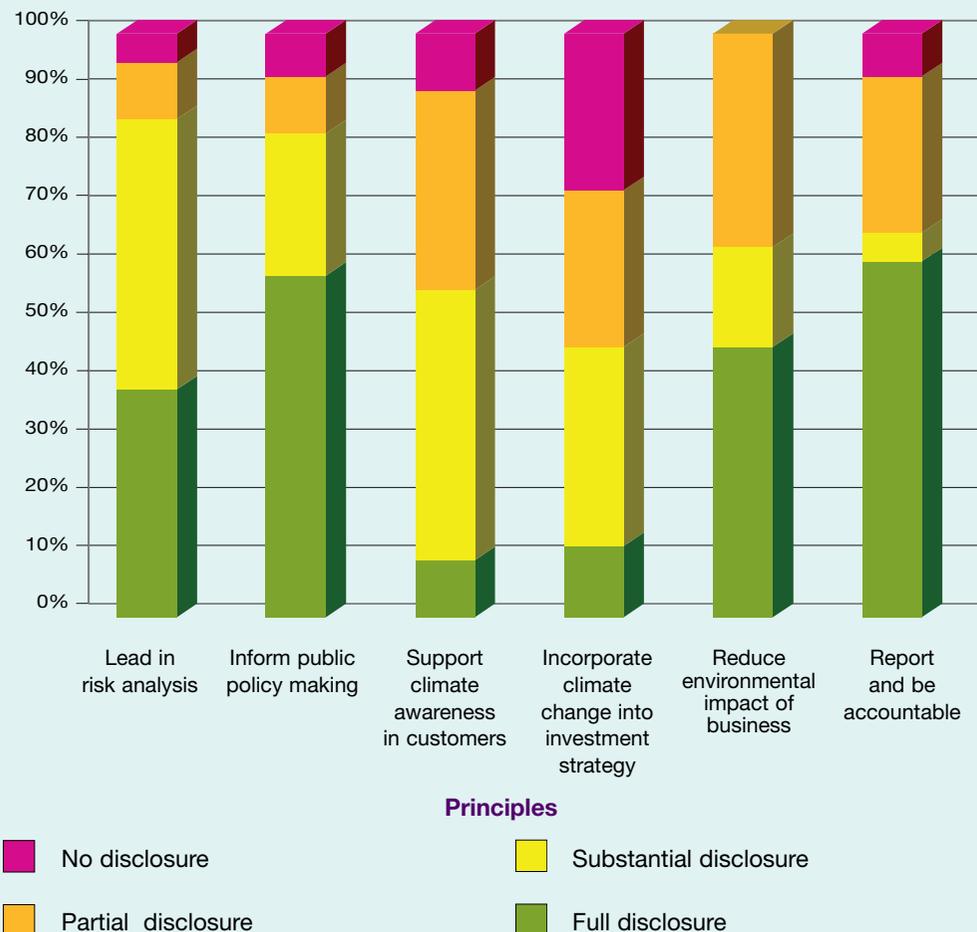
- Signing up to ClimateWise is a strong indication of Board-level support for an effective climate change strategy, but the reviewers were looking for evidence that this has translated into ongoing practical action to incorporate climate change into business strategies and planning. A quarter of members (10 of 41) could not demonstrate this, because they did not describe any internal processes to ensure that climate change is maintained on the Board agenda, or because there appeared to be no clear senior-level ownership of the ClimateWise report.
- ClimateWise members were not required to produce a stand-alone report, although the vast majority (33 out of 41) chose to do so. Of the others, three made a brief reference to ClimateWise in their annual report, two provided a more detailed commentary on ClimateWise in their annual report, and three submitted generic papers on their company's climate change activities.

figure 12. Format of ClimateWise reports



- The quality of the reports varied. The best considered each element of the Principles individually and either disclosed activities relating to the Principles, highlighted progress towards compliance or explored the reasons why compliance was not appropriate. Although members were not asked to report separately on each element of the Principles, this seems to have been a useful exercise to tease out views on how the Principles relate to current activities and how this is likely to evolve.
- Disclosure and compliance are usually closely linked. If a member is active in a particular area, this tends to be reflected in the report it submits.
- Members' reports often did not fully reflect the work they are doing. Some reports reflected the area of expertise and focus of the people responsible for completing them – for example, internal environmental impact. In other cases, information on a member's activities was contained in separate reports that the reviewers did not initially take into account. Subsequent discussions with companies and feedback on initial ratings revealed a number of areas where they were taking action. The graph below is based on the initial disclosure in the documents submitted to ClimateWise, and does not take into account subsequent discussions and feedback.

fig 13. Current disclosure by ClimateWise members



- Many of the findings mirror those on compliance:
 - Most members (80%) disclosed substantial activities around risk analysis but fewer disclosed how they are using this to inform levels of pricing, capital and reserves.
 - Most members (85%) reported activity to encourage customers to be more aware of climate change, whether through development of specific products and services or by providing information. However, only a minority of members (29%) disclosed activities relating to more than two of the four elements of Principle 3.
 - Disclosure of investment strategies was weak. A quarter of members (27%) were silent on this and only two members gave details of activities in all five of the suggested areas of Principle 4.

- All members gave details of action to reduce their own environmental impact. For many, it is the beginning of a process of measurement and target-setting and their reports referred to a dynamic process which they expect to result in greater disclosure of numbers and targets in future years.

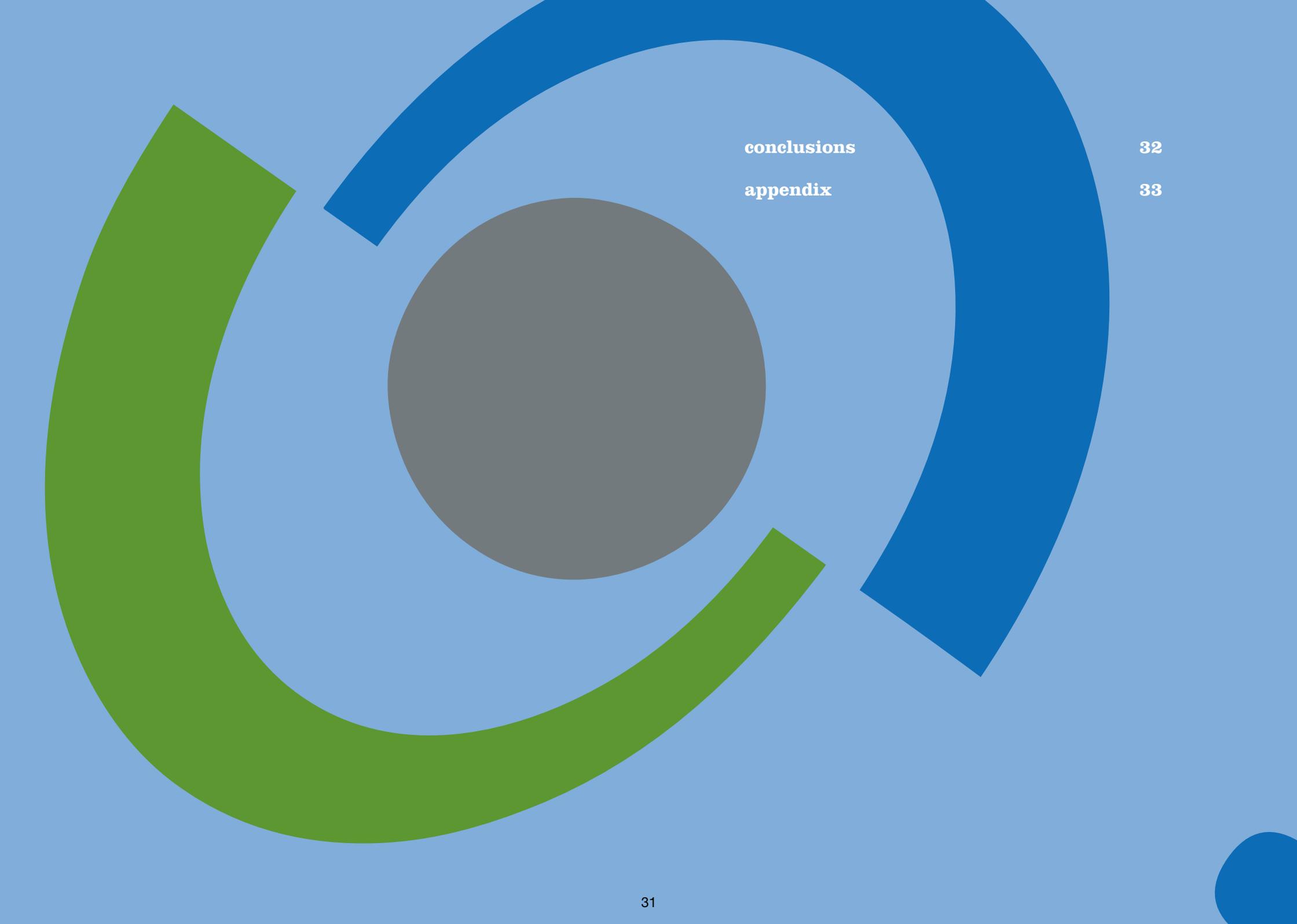
observations from forum for the future

(1) Quality and completeness of disclosure is important

It is not surprising that there are some gaps in disclosure in the first year of ClimateWise, but members should make an effort in future to report on their performance against each element of the Principles. Reports should clearly signal where to find information on each of the relevant activities. This does not have to be onerous – the document could simply contain links to relevant sections of other reports.

(2) It will be important to continue to expect more of each member each year

For the 2008-9 reporting year, members will be expected to demonstrate the development of their approach to the Principles and report on genuine progress in the previous 12 months. For leading businesses, this will mean continuing innovation and embedding climate change considerations in all aspects of business. Smaller businesses, particularly those that are just embarking on their climate change strategy, should use the 2008-9 report to demonstrate fundamental shifts in the way they incorporate climate change into all elements of business risk and opportunity.



conclusions

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appendix

33

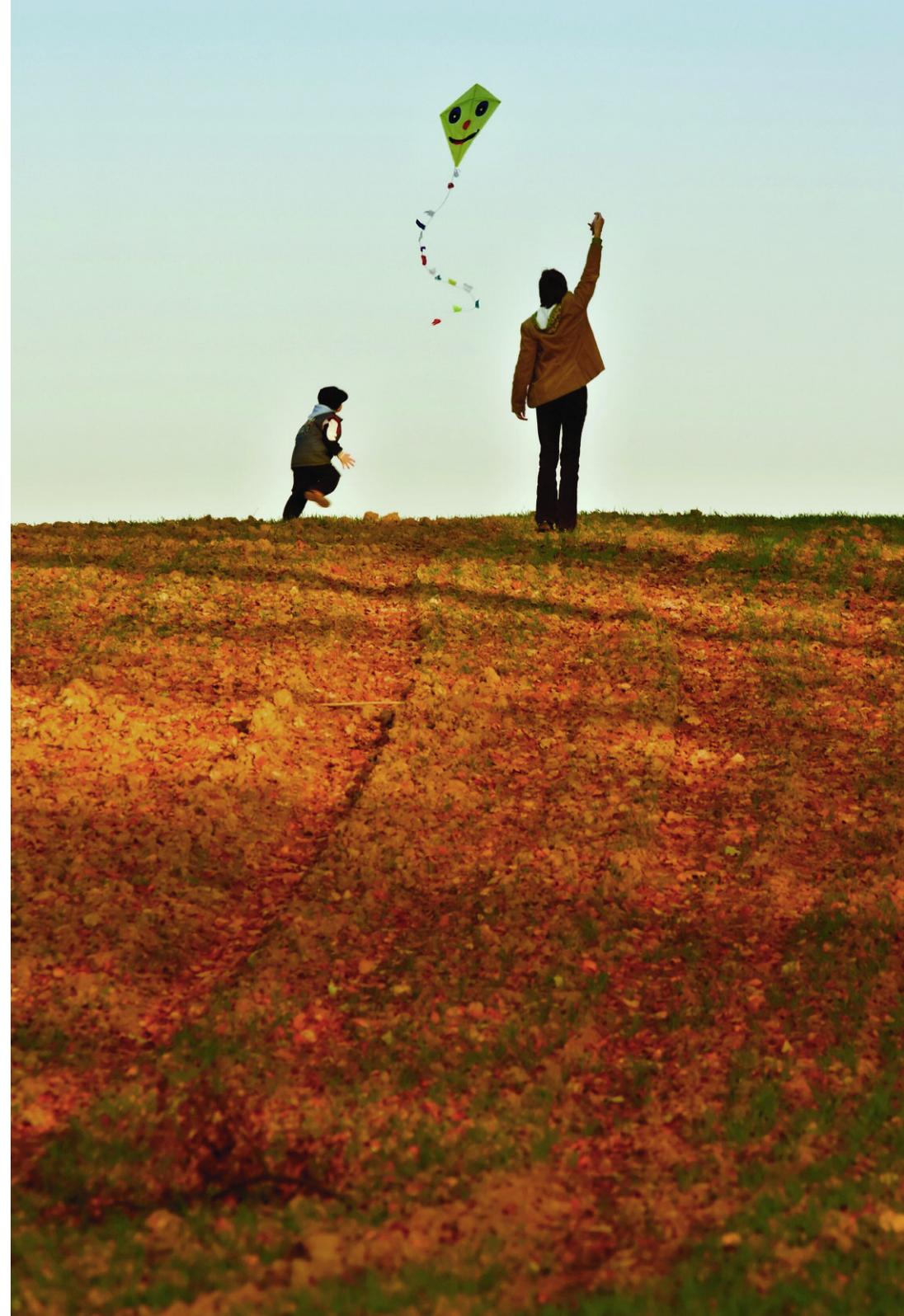
conclusions

In this first year it is encouraging to see a lot of activity reflected in the reports, alongside commitments to take the climate change agenda forward over the coming year. ClimateWise can bring the power of the insurance sector to bear on the challenge of climate change, but this will depend on each member continuing to deliver innovative thinking and continuous improvement.

However, despite some good work and examples of activities which have changed behaviour, members' initiatives are not yet creating transformation at a pace which reflects the urgency of the problems posed by climate change.

In consultation with members, the ClimateWise Secretariat can play a role in taking forward some of the recommendations of this report. Some specific activities are outlined in Appendix 5.

ClimateWise members are in a good position to collaborate on projects that will identify the true cost of continuing to insure and invest in a carbon-intensive economy. This time of extraordinary and unnerving disruption and change in the financial sector provides an opportunity to rethink systemic risk. ClimateWise can play an important part in helping the insurance industry to rise to the challenge and lead the way to a more sustainable, low-carbon future.



appendix 1 - composition of ClimateWise members for 2007-8

Member	SIZE Employees	INDUSTRY ROLE						SERVICES PROVIDED			
		Association /industry body	Insurer	Broker	Lloyd's syndicate	Reinsurer	Other	General insurance	Life and pensions	Health insurance	Specific expertise
ABI	51-200	•						•	•	•	
ACE	1,001-10,000				•			•		•	
AIG	50,000+		•					•	•	•	
Allianz (UK)	1,001-10,000		•					•			
Amlin	1,001-10,000				•			•			
ARK	51-200				•			•		•	
Aviva	50,000+		•					•	•	•	
AXA (UK)	1,001-10,000		•	•				•	•	•	
Beazley	201-1,000				•			•			
Benfield	1,001-10,000			•				•		•	
BIBA	1-50	•						•		•	
Catlin	1,001-10,000				•			•		•	
Chaucer	201-1,000				•			•			
The Co-operative Insurance	1,001-10,000		•					•	•	•	
Diagonal Underwriting	1-50				•			•			
Equity Group	1,001-10,000				•			•			
F&C Asset Management	201-1,000										Asset manager
Friends Provident	1,001-10,000		•						•		
Hardy's Underwriting	51-200				•			•			
HBOS	50,000+		•					•	•	•	
Heritage	51-200				•			•			
Hiscox	201-1,000				•			•			
Legal & General	10,001-50,000		•					•	•		
Lloyd's of London	201-1,000	•						•	•	•	
Lloyds TSB	50,000+		•					•	•	•	
Marketform	51-200				•			•			
Munich Re	10,001-50,000					•		•	•	•	
Navigators	51-200				•			•			
NFU Mutual	1,001-10,000		•					•	•	•	
Prudential	1,001-10,000		•					•	•	•	
QBE European Operations	1,001-10,000		•		•			•			
RBS	50,000+		•					•	•		
Risk Management Solutions	1,001-10,000										Modelling firm
RJ Kiln	201-1,000				•			•	•	•	
RSA	10,001-50,000		•					•			
Spectrum	51-200				•			•			
Standard Life	201-1,000		•						•	•	Asset manager
Swiss Re (UK)	201-1,000					•		•	•	•	
UNUM	201-1,000		•						•	•	
XL	51-200				•			•			
Zurich (UK)	1,001-10,000		•					•	•	•	

appendix 2 – detailed methodology for review

A Review of reports

The reports received from Climatewise members in this first year varied widely in quality. Most members (80%) prepared a stand-alone report reviewing their performance against each of the Principles, although this was not a requirement. Others submitted links to existing reports such as the annual report or the corporate responsibility report. Although the instructions to ClimateWise members stated that it was not necessary to produce a separate report, and while some companies are naturally unsure of the benefit, several company representatives mentioned that it was a useful process for them to go through the Principles, addressing each one in turn. Certainly from the reviewer's perspective, it was substantially easier to capture the relevant data on disclosure and compliance from a master document, even if much of the material was contained in links elsewhere.

B Construction of initial matrix

(a) disclosure

- Each of the ClimateWise Principles includes some examples of the way in which that Principle might be embedded in a company's activities. So, for example, ClimateWise Principle 1 relates to "Lead in risk analysis", with the suggested means of achieving this being supporting and undertaking research; supporting more accurate forecasting; using research to inform pricing; evaluating the risks of new technologies in order to provide products; and sharing research with others. Not all of these elements will be relevant to every member, but disclosure of their activities in each (or a clear explanation of why it is not relevant) is a useful indication of the company's approach.
- We took the view that we should assess members' responses to each element of the Principles separately in order to be able to provide sufficient depth and colour to the analysis.
- We constructed a matrix in which we noted the written response of each member to each element of each of the Principles, accessing all of the information provided to the ClimateWise secretariat. We noted where there was no disclosure on a particular Principle (N), where a company had partly disclosed activities on that aspect of the Principle (P) and where it had fully disclosed activities in that particular area (D). In cases where there was a valid reason for non-disclosure in our opinion after comparison with other organisations playing a similar role in the industry, we gave a rating of E for explanation.

- The purpose of this data set was to assess the quality and completeness of the reporting, rather than to assess members' compliance with the Principles themselves. Therefore, a simple statement that the company currently has no activities in relation to a particular area of the Principles was scored as full disclosure.
- We flagged areas where we wanted to ask questions of members. We also noted case studies of particular interest.

(b) compliance

- Using only the information submitted to the ClimateWise secretariat, we compiled an initial matrix of compliance with each element of the Principles. For each element within the Principles, we assessed whether the company complied with that Principle (C), partially complied (P) or didn't comply at all (N). There was also an allocation for companies that could offer a meaningful explanation of why it was not applicable to them (E).
- Examples of partial compliance on individual elements of the Principle would be:
 - Where the element of the Principle contains more than one aspect and only one aspect has been met – for example "measure and seek to reduce emissions" in Principle 5a will achieve partial compliance if there is evidence of measurement but no evidence that the member has actively sought to reduce emissions.
 - Where the member is a large company with an established climate change programme, the member has provided evidence of action but there is no clear evidence of progress in that activity during the year.
 - In the case of the companies that are newer to the climate agenda, there is limited evidence of action but the report shows evidence that the foundations are in place for more progress to be made in the coming year.
 - In the opinion of the reviewers, the response does not fully meet the needs of the particular element of the Principle – for example, investment in cleantech is provided as the only evidence of climate change being incorporated into investment strategy.

C Identification and verification of case studies

- In the process of this initial review, we identified case studies that we could use to illustrate activities being carried out by members. We then verified and researched these case studies further and confirmed that they took place in 2007-8.

D Conversations with member representatives

- We spoke to as many of the member representatives as possible, to clarify some areas and to get a sense of activities that had not been properly reflected in the submission. Given the limited timeframe for completion of the report, we focused in particular on contacting those members where we needed clarification. Where members stated that a Principle was not relevant to its activities, we looked to gain a better understanding in order to judge whether this response was appropriate. We then amended the compliance matrix in the light of these conversations. We did not amend the disclosure matrix, unless we had missed information that had been part of the original discussion.
- We also talked through some of the case studies with member representatives.
- The conversations also highlighted some key themes to reflect in this report. The conversations were useful in providing some flavour to the submissions and understanding in more detail how members perceive the ability of companies to comply.

E Revision of matrix

- In light of the conversations we had with members, we amended a few of the scores on compliance with some of the elements of the Principles where appropriate. In future years, the overall quality of the reports may be better and there may be less need for this step in the process. But this year it was necessary in order to reflect more accurately the work that members are doing.

F Compilation of summary matrices

- For each member, we took the responses to each element of the Principles and rated that member's overall disclosure relating to the Principle depending on how many of the elements it had disclosed activities on, and therefore its overall score. Assuming that two points were available for each D or E, one point for a P and no points for an N, we added the score for each member for each element of the Principle. A zero score gave an overall "no disclosure" rating for that Principle, a score of half or less of the points available gave a "partial disclosure" rating, a score of more than half the points available gave a "substantial disclosure" and full score gave a "full disclosure".
- We also rated members' compliance in the same way.

G Preparation of report

- We then prepared the report using the analysis from the detailed and summary matrices.

H Circulation of draft report

- We circulated the report to members and to the ClimateWise Secretariat to give them an opportunity to comment on their scores and to provide more general feedback on the report. We reviewed these responses carefully and then made changes to the report where appropriate.

I Finalisation of report

- We then finalised the report.

appendix 3 - details of initial written disclosure by members (anonymised)

NOTE - The members are NOT in the same order as in Appendix 1. These ratings are based on initial reports submitted and do not take account of follow-on communication with members.

	FORMAT OF REPORT	1 LEAD IN RISK ANALYSIS					2 INFORM PUBLIC POLICY MAKING					3 SUPPORT CLIMATE AWARENESS IN CUSTOMERS				4 INCORPORATE CLIMATE CHANGE INTO INVESTMENT STRATEGIES					5 REDUCE ENVIRONMENTAL IMPACT OF BUSINESS				6 REPORT AND BE ACCOUNTABLE		
		1a	1b	1c	1d	1e	2a	2b	2c	2d	2e	3a	3b	3c	3d	4a	4b	4c	4d	4e	5a	5b	5c	5d	6a	6b	
1	S	D	D	D	D	D	D	D	D	D	E	D	D	D	P	D	D	D	D	D	D	D	D	D	D	D	
2	S	D	D	D	N	D	D	D	D	D	D	N	N	D	N	N	D	N	N	N	N	N	P	N	D	N	D
3	S	D	D	D	D	D	D	D	D	D	D	P	D	D	P	D	D	D	D	N	D	D	D	D	D	D	
4	S	D	D	D	D	D	D	D	D	D	D	D	E	E	D	P	P	P	D	P	D	D	D	D	D	D	
5	S	E	E	D	E	E	D	D	D	D	D	E	E	E	N	E	E	E	E	N	N	P	N	N	N	D	
6	S	D	D	D	N	N	D	D	N	N	D	D	P	D	N	P	N	P	N	N	N	D	D	D	D	D	
7	S	D	D	D	E	D	P	P	N	N	N	D	D	E	N	D	D	N	D	D	D	D	D	D	N	D	
8	S	D	D	D	D	D	D	D	D	D	D	E	E	E	N	N	N	E	N	N	N	P	N	N	N	D	
9	G	N	N	N	D	N	P	P	N	D	D	D	D	P	N	D	D	D	D	D	D	D	D	D	D	D	
10	S	D	D	D	N	D	D	D	D	D	N	D	N	N	D	D	D	N	D	N	D	D	D	D	N	D	
11	S	D	D	D	N	D	D	D	D	D	D	D	D	D	P	D	D	P	D	D	D	D	D	D	D	D	
12	RA	D	D	D	N	D	D	D	D	D	N	D	N	N	D	N	N	N	N	N	D	P	N	D	D	N	
13	S	D	D	D	N	D	D	D	D	D	D	D	D	N	N	D	N	E	N	N	N	P	N	D	D	D	
14	S	D	D	D	D	D	D	D	D	D	D	D	D	D	N	N	N	N	N	N	D	D	D	D	D	D	
15	S	D	D	D	D	D	D	D	D	D	D	D	D	N	D	N	N	E	N	N	P	P	N	P	D	D	
16	RA	D	D	D	D	D	D	D	D	D	D	D	D	D	N	N	N	N	N	N	N	P	N	N	N	N	
17	S	D	D	D	N	D	D	D	D	D	D	D	D	N	N	N	N	N	N	N	D	P	N	D	N	D	
18	S	D	D	D	D	D	D	D	D	D	E	D	E	E	D	D	D	D	D	D	D	D	D	D	D	D	
19	RA	N	N	N	N	N	N	N	N	N	N	N	N	N	D	N	N	N	N	N	D	N	N	N	N	N	
20	PA	N	N	D	N	N	D	D	D	D	D	N	N	N	N	N	N	N	N	N	N	D	N	N	N	N	
21	S	D	D	D	N	D	D	D	D	D	D	D	D	D	N	D	D	E	D	D	D	D	D	D	D	D	
22	G	N	N	D	D	N	D	N	D	N	N	D	D	N	D	D	D	N	D	N	D	D	D	D	D	P	
23	S	D	D	D	D	N	D	D	D	D	D	N	P	N	N	N	N	N	N	N	N	P	N	D	D	D	
24	S	D	D	D	N	N	D	D	D	D	P	P	D	N	N	N	N	N	N	N	N	P	N	D	N	D	
25	S	D	D	D	N	N	D	D	D	D	D	D	D	N	N	E	E	E	E	D	N	P	N	N	N	D	
26	S	D	D	D	D	D	N	N	N	N	P	P	N	D	D	D	D	D	N	N	D	D	D	D	D	D	
27	S	D	N	N	N	N	D	D	N	D	P	D	D	N	N	D	D	N	N	N	N	D	D	D	P	D	
28	S	D	D	D	D	D	D	D	D	D	D	D	D	E	D	D	D	D	N	D	D	D	D	D	D	D	
29	S	D	D	D	N	N	D	D	D	D	D	D	N	N	N	D	D	P	D	N	D	D	D	D	D	D	
30	S	D	N	D	D	D	D	D	N	D	N	D	D	D	N	P	N	N	N	N	N	D	P	D	D	D	
31	S	D	N	D	N	D	D	D	N	N	N	D	N	P	N	D	D	D	N	N	D	D	D	D	D	D	
32	S	D	D	D	D	N	N	N	N	N	N	N	N	N	N	D	N	N	N	D	N	D	D	D	D	D	
33	S	D	D	D	N	N	D	D	D	D	D	D	N	P	N	P	N	N	N	N	N	P	N	D	D	D	
34	S	D	D	D	D	D	D	D	N	D	D	D	D	P	N	D	D	D	D	N	D	D	D	D	D	D	
35	S	D	D	D	D	D	D	D	D	D	D	E	E	E	N	N	N	N	N	N	N	P	N	N	D	D	
36	S	P	P	D	D	N	D	D	D	D	D	D	D	N	N	N	N	N	N	N	N	P	N	P	D	D	
37	G	D	D	D	D	D	D	D	D	D	D	D	D	E	D	D	D	D	P	D	D	D	D	D	D	D	
38	S	D	D	D	N	D	D	D	D	P	P	P	N	E	N	P	N	N	N	N	N	D	D	P	D	D	
39	S	D	D	D	D	D	D	D	N	D	D	D	E	E	D	E	E	E	D	N	D	P	N	D	D	D	
40	S	N	N	N	N	N	E	E	E	E	E	N	N	N	N	E	E	E	E	E	N	P	N	N	N	D	
41	PA	D	N	D	N	N	D	D	D	D	D	N	D	N	N	N	N	N	N	N	N	P	N	D	D	N	

Key S stand-alone report G generic document PA paragraph in Annual Report RA reference in Annual Report D full disclosure P partial disclosure E explanation N no disclosure

appendix 4 - details of compliance by members (anonymised)

NOTE - The members are NOT in the same order as in Appendix 1. These ratings are based on all information received from members including initial reports, telephone conversations and additional information submitted by members during the review.

	1 LEAD IN RISK ANALYSIS					2 INFORM PUBLIC POLICY MAKING					3 SUPPORT CLIMATE AWARENESS IN CUSTOMERS				4 INCORPORATE CLIMATE CHANGE INTO INVESTMENT STRATEGIES					5 REDUCE ENVIRONMENTAL IMPACT OF BUSINESS				6 REPORT AND BE ACCOUNTABLE		
	1a	1b	1c	1d	1e	2a	2b	2c	2d	2e	3a	3b	3c	3d	4a	4b	4c	4d	4e	5a	5b	5c	5d	6a	6b	
1	C	C	C	C	C	C	C	C	C	E	C	C	C	P	C	C	C	C	C	C	C	C	C	C	C	
2	C	C	C	C	C	C	C	C	C	C	N	N	C	N	N	C	N	N	N	N	N	P	N	C	C	C
3	C	C	C	C	C	C	C	C	C	C	C	C	C	P	C	C	C	C	N	C	C	C	C	C	C	
4	C	C	C	C	C	C	C	C	C	C	C	E	E	C	P	P	P	C	P	C	C	C	C	C	C	
5	E	E	C	E	E	C	C	C	C	C	E	E	E	N	E	E	E	E	N	N	P	N	N	N	C	
6	C	C	C	C	N	C	C	N	N	C	C	P	C	N	P	N	P	N	N	C	C	C	C	C	C	
7	C	C	C	E	C	P	P	N	N	N	C	C	E	N	C	C	N	C	C	C	C	C	C	C	N	C
8	C	C	C	C	C	C	C	C	C	C	E	E	E	N	N	N	E	N	N	N	P	N	P	N	C	
9	N	N	N	C	N	C	P	N	C	C	C	C	C	N	P	N	N	N	N	C	C	C	C	C	P	
10	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	N	C	N	C	C	C	C	N	C	
11	C	C	C	C	C	C	C	C	C	C	C	C	C	P	C	C	P	C	C	C	C	C	C	C	C	
12	C	C	C	N	C	C	C	C	C	C	C	N	N	C	N	N	N	N	N	C	C	C	C	C	N	
13	C	C	C	N	C	C	C	C	C	C	C	C	N	N	C	N	E	N	N	N	P	N	C	C	C	
14	C	C	C	C	C	C	C	C	C	C	C	C	C	N	N	N	N	N	N	C	C	C	C	C	C	
15	C	C	C	C	C	C	C	C	C	C	C	C	N	C	N	N	E	N	N	C	P	N	N	C	C	
16	C	C	C	C	C	C	C	C	C	C	N	N	N	N	N	N	N	N	N	N	P	N	N	N	N	
17	C	C	C	N	C	C	C	C	C	C	C	C	N	N	N	N	N	N	N	C	P	N	C	N	C	
18	C	C	C	C	C	C	C	C	C	E	C	E	E	C	C	C	C	C	C	C	C	C	C	C	C	
19	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	P	N	N	N	N	
20	N	N	C	N	N	C	C	C	C	C	N	N	N	N	N	N	N	N	N	C	P	N	N	N	N	
21	C	C	C	N	C	C	C	C	C	C	C	E	E	N	C	C	E	C	C	C	C	C	C	C	C	
22	C	C	C	C	N	C	N	C	C	C	C	C	N	E	C	C	N	C	N	C	C	C	C	C	P	
23	C	C	C	C	N	C	C	C	C	C	N	P	N	N	N	N	N	N	N	N	P	N	C	C	C	
24	C	C	C	N	N	C	C	C	C	P	P	C	N	N	N	N	N	N	N	N	P	N	C	N	C	
25	C	C	C	N	N	C	C	C	C	C	C	C	N	N	E	E	E	E	C	N	P	N	N	N	C	
26	C	C	C	C	C	N	N	N	N	P	P	N	C	P	C	C	C	N	N	C	C	C	C	C	C	
27	C	C	C	C	N	C	C	N	C	P	C	C	P	N	C	C	N	N	N	C	C	C	C	C	C	
28	C	C	C	C	C	C	C	C	C	C	C	C	E	C	C	C	P	C	N	C	C	C	C	C	C	
29	C	C	C	N	N	C	C	C	C	C	C	P	N	N	C	C	P	C	N	C	C	C	C	C	C	
30	C	C	C	C	C	C	C	N	C	N	C	C	C	N	P	N	N	N	N	N	C	P	C	C	C	
31	C	N	C	C	C	C	C	N	C	N	C	N	P	N	C	C	C	N	N	C	C	C	C	C	C	
32	C	C	C	C	N	N	N	N	N	N	N	N	N	P	P	N	N	N	N	C	C	P	C	C	C	
33	C	C	C	N	E	C	C	C	C	C	C	N	P	N	P	N	N	N	N	N	P	N	C	C	C	
34	C	C	C	C	C	C	C	N	C	C	C	C	P	C	C	C	C	N	N	C	C	C	C	C	C	
35	C	C	C	C	C	C	C	C	C	C	E	E	E	N	N	N	N	N	N	N	P	N	N	C	C	
36	P	P	C	C	N	C	C	C	C	C	C	C	N	N	N	N	N	N	N	N	P	N	P	C	C	
37	C	C	C	C	C	C	C	C	C	C	C	C	E	C	C	C	C	C	P	C	C	C	C	C	C	
38	C	C	C	N	C	C	C	C	P	P	P	N	E	N	P	N	N	N	N	N	C	C	P	C	C	
39	C	C	C	C	C	C	C	N	C	C	C	E	E	C	E	E	E	E	N	C	P	N	C	C	C	
40	N	N	N	N	N	E	E	E	E	E	N	N	N	N	E	E	E	E	E	N	P	N	N	P	C	
41	C	C	C	N	N	C	C	C	C	C	N	C	N	C	C	N	N	N	N	N	P	N	C	C	P	

Key C full compliance P partial compliance E explanation N no compliance



appendix 5 - recommendations for activities in the coming year

A number of recommendations arise from this review which could be picked up by the ClimateWise Secretariat.

(1) Enabling better dialogue with fund managers

The review identified that some companies do not engage with their fund managers on climate change. Reasons for this varied but included the small size of funds, a sense that it was not possible or appropriate to do so, and a lack of tools to help inform the discussion. There may be a role for the ClimateWise Secretariat in following up on what members might find useful. For example, some members might welcome guidance on:

- The questions they can ask fund managers on how / whether climate change risk and opportunity are embedded in investment strategy
- How to rate the performance of their fund managers on analysis of climate (and other social and environmental) risks
- How climate change can affect the value of investments across the portfolio, not only in equities and property but also in government and corporate bonds and other assets.

(2) Highlighting the implications of climate change for company performance and shareholder value

It could be useful to put on the ClimateWise website some of the studies that have been done to research the correlation between climate change and company valuation in certain sectors.

(3) Exploring the current barriers created by lack of customer awareness and demand

Some members commented in telephone conversations that a lack of customer awareness and demand is at present a barrier to action, at least in the developed world. This needs more research. For example -

- Where members are taking action to encourage increased awareness from customers on climate change, is this making a real impact on customer behaviour?
- What are the mechanisms whereby these awareness-raising programmes might create real behaviour change?

- What can members do differently? Should they act in partnership with other sectors?
- How can increased awareness be translated into greater actual demand on the ground for climate-friendly products and services?

(In the developing world, where awareness of climate change is greater as a result of increased vulnerability from changing current weather patterns, the barriers arise more from lack of data and a lack of ability to pay – and different questions arise.)

(4) Assisting members to create scenarios

Forum for the Future's work has demonstrated that one of the principal barriers to more action in addressing climate change is the lack of certainty and lack of information on possible future scenarios. Some of the findings of this review confirmed that this is the case. ClimateWise members could collaborate on a project that investigates future scenarios resulting from climate change and explores the impacts on the insurance industry. As highlighted in the report, this could help not only to increase understanding of potential impacts for the insurance industry itself, but also to inform public policy and raise consumer awareness. Forum for the Future's recent work on Climate Futures⁹ creates one potential starting point. The ClimateWise Secretariat could gather views from ClimateWise members on the benefits of such a process and, if appropriate, could help to coordinate an activity in this area.

(5) Facilitating public policy interventions

It is difficult for individual insurance companies, particularly the smaller ones, to provide input to public policy. Clearly bodies such as the ABI and Lloyd's of London play a role in gathering industry knowledge and disseminating it to policy-makers, and it is possible that no further action is required. However, it could potentially be useful for the ClimateWise Secretariat to compile a brief guide to the different public policy-making bodies on climate change in Europe and elsewhere, guidance on how and when specific opportunities for intervention arise, and an indication of the types and format of public policy recommendations on climate change that have been made by others in the recent past.

⁹ See Climate Futures at <http://www.forumforthefuture.org/projects/climate-futures>





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