



Delivering on our ClimateWise commitments – Fourth Year Report

The ABI's Response, June 2011

Foreword

Otto Thoresen, Director General



“Climate change is happening now and we need to tackle it – by taking steps to address the causes and adapt to the consequences of climate change”. The ABI’s third year report began with this sentence and there is no reason for this year’s to begin any differently. Climate change remains a colossal challenge for society, as lives and livelihoods are threatened by an environment of increasing uncertainty and extremes.

The insurance industry, through its expertise in risk management, analysis of the financial costs of more extreme weather, and of course its extensive consumer interface, has a key role to play addressing the causes and consequences of a changing climate.

I recognise the challenges that climate change brings, and the potential for our industry to make a difference. So when I took over as the ABI’s Director General in April 2011, I was delighted to discover that the ABI continues to work with our members, Government and consumers to address them.

The ClimateWise initiative marks a new era of industry action and co-operation, on a global level, to tackle climate change. For the ABI, the role that ClimateWise plays in encouraging our members to think both about the longer term future of the industry and about the societal value that the industry delivers is extremely welcome. As the trade association representing the insurance industry in the UK, we were instrumental in facilitating the launch of the initiative in 2007, and despite our small size, we remain a full signatory to the ClimateWise principles. It is in this capacity that we are reporting back on the actions we have taken on these principles during the fourth year of the initiative.

The ABI's climate change work aims to reduce both the causes and effects of climate change. As a trade association our currency is public policy, so it is unsurprising, yet welcome, to see our activity on Principle 2 – 'Inform Public Policy Making', going from strength to strength. Our work on safeguarding flood insurance after the Statement of Principles expires in 2013 is particularly important.

Principle 2 is where we place the most emphasis, but we must also continue to lead in risk analysis. In this context, the work we have done on motor insurance for electric vehicles is a significant step on the path to a low-carbon economy, and our involvement with the new Flood Forecasting Centre is extremely valuable.

Finally I want to mention Principle 3. While most ClimateWise members have their own customers to support, the ABI, as a trade association, focuses on consumers more generally. The industry's relationship with the consumer is at the heart of my agenda as Director General. This year we have worked hard to help the public understand the impacts that Climate Change is likely to have on them, their property and their businesses, and to ensure that our members prepare to provide the best possible service when things do go wrong.



Otto Thoresen
Director General

Report on progress

The ABI's Climate Change related activities are summarised below, and linked to each of the six ClimateWise principles. This report covers the twelve months from July 2010 to June 2011.

Principle 1: Lead in risk analysis

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Lead in risk analysis

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

The ABI provides leadership on relevant regulatory and policy issues, to shape and influence decisions made by the Government and other public authorities, within the UK and in Europe. The ABI has been investigating climate risks for more than a decade. Insurers need to understand these risks in order to offer sustainable solutions to our customers now, and to safeguard our ability to continue doing so in future years. We ensure that latest evidence held by the industry is shared and that we make advances in the level of forecasting and risk reporting.

Over the last twelve months the ABI has been involved in a variety of activities in this area:

- **ABI engaged in ClimateWise's 'Health and Climate Change' workstream:** The ABI is a member of this working group, which seeks to explore the health impacts of climate change. The ABI regularly liaises with health insurers, and is facilitating an industry-wide data-mining project of existing claims data to establish what we can and cannot already say about the impact of extreme weather on Health and Protection claims, in the context of wider population. (CW principles 1.1, 1.3 and 1.5)
- **Research on Consumer Attitudes to Resilient Repair:** The ABI commissioned research into consumer attitudes to resilient repair, including quantitative and qualitative analyses of the view of flood victims and people at flood risk who had not yet been flooded. The research will inform both the industry's approach to repairing property in a resilient manner, and discussions with the Government and consumer

groups on encouraging property-level adaptive measures. (CW principles 1.1 and 1.5)

- **Flood Forecasting Centre:** The ABI sits on the stakeholder group for the new Flood Forecasting Centre – a partnership between the Environment Agency and the Met Office to forecast river, coastal and tidal flooding, as well as extreme rainfall. (CW principle 1.2)
- **Working with the Environment Agency to improve flood risk data:** The ABI continues its close co-operation with the Environment Agency on making flood risk information available to insurers. A particular success in 2011 has been getting the Environment Agency to make their 'DataShare' service for the electronic transfer of regular data updates available to commercial licensees such as insurers. This will allow insurers to receive the new data and incorporate it into their own risk assessment processes more efficiently. (CW principles 1.2 and 1.3)
- **Defra's Steering Group for National Climate Change Risk Assessment:** ABI is providing advice to Defra as a member of the steering group to oversee the UK's first National Climate Change Risk Assessment (NCCRA) and Cost-Benefit Analysis, which Government has to produce under the Climate Change Act. ABI attends regular steering group meetings and has been involved in the sectoral work done under the NCCRA. (CW principles 1.2 and 1.5)
- **Future of flood insurance research:** In 2010 the ABI conducted a major research project to advise on the future of flood insurance and possible mechanisms to support the market following the expiry of the Statement of Principles in 2013. A potential model was considered by ABI members and discussed with the Government's flood insurance working group in early 2011, and we then undertook detailed follow-up research to apply quantitative analysis to the various options (CW principles 1.3 and 1.5)
- **Insurance of low carbon vehicles:** The ABI has worked with vehicle manufacturers and the Society of Motor Manufacturers and Traders to help insurers understand the nature of the risks associated with new vehicle technologies, with a particular focus on electric vehicles. We are delighted that insurers have been able to provide reasonably priced insurance for the UK's first mass market electric car, the Nissan Leaf. (CW principle 1.4)
- **Other examples of regular and ongoing engagements with the science community** (CW principle 1.5):
 - ABI is a member of the Project FOSTER (Flood Organisation Science and Technology Exchange Research) National Advisory Panel at the University of Oxford.
 - ABI is a member of the Project Advisory Group for the University of Dundee's ongoing research 'The Invisible Hazard: pluvial flooding in urban areas'.



Principle 2: Inform public policy making

2 Inform public policy making

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

Our key role as an industry association is to speak out on issues of common interest, help to inform and participate in debates on public policy issues, and act as an advocate for high standards of customer service in the insurance industry. The ABI is a recognised contributor to public policy thinking on climate change. Our aim is to ensure that the ABI is seen as a leader in increasing society's resilience to climate events - especially significant floods, reducing risk and improving emergency planning, by developing persuasive public policy positions and engaging with key actors in the UK and Europe. Recent work in this area includes:

- **Statement of Principles agreements:** The ABI continues to have Statement of Principles agreements in place with England, Wales, Northern Ireland and Scotland. The Statement of Principles agreements place commitments on insurers about continuation of cover for flooding, in exchange for various Government actions: improving the understanding of flood risk, putting in place a long-term investment strategy, and raising awareness in areas where flood risks are significant. (CW principle 2.1)
- **The future of flood insurance:** Having gained recognition from Government that the Statement of Principles will expire in 2013, we have undertaken research into potential options for the future (see principle 1). We are represented on the Government's working groups on risk-sharing, data provision and transparency, and resilience, established following a Ministerial Flood Summit in September 2010, and we have used our research to inform these discussions. (CW principles 2.1 and 2.4)
- **The planning system:** The ABI has taken a keen interest in the planning system this year, as the localism agenda threatens to dilute the rigour of development control in flood risk areas. We sent an extensive response to the Department of Communities and Local Government consultation on reforming

the National Planning Policy Framework, engaged with the Local Government Association, and discussed the issue of building in flood risk areas with the Lincolnshire Flood Risk Management Group. (CW principles 2.1 and 2.2)

- **Awareness-raising with MPs:** The ABI continues to engage regularly with MPs, with bilateral meetings, as well as regular speaking engagements at the All Party Parliamentary Group and at the Westminster Briefing on flooding. (CW principle 2.1)
- **DECC Roadmap for a Green Economy:** We have worked with DECC in 2011 to feed the insurance industry perspective into their work on a Roadmap to a Green Economy. (CW principle 2.1)
- **Engagement with Government on Flood Risk Management Funding:** In February 2011 we responded to the Government's consultation on a proposed future funding model for flood risk management, supporting the model in principle, but raising concerns about the practicality of making the system work. We arranged a discussion session between Defra and ABI members in June 2011. (CW principle 2.1)
- **The Floods and Water Management Act:** In 2009 and 2010 the ABI played a key role in lobbying on this important piece of legislation. The focus has now shifted to monitoring the implementation of the Act. In this context we maintain a close relationship with the Environment Agency and the Local Government Association (through their 'partners group' on flooding) as the deadline approaches for Local Authorities to produce their Preliminary Flood Risk Assessments. (CW principles 2.1, 2.2, and 2.4)
- **Defra's Adaptation Stakeholder Board:** ABI is a member of Defra's Adaptation Partnership Board. The aim of this stakeholder group is to provide informal advice to Government on the development of the cross-Whitehall Domestic Adaptation Programme and on developing approaches to wider stakeholder engagement. (CW principle 2.1)
- **Engagement on climate change at European level:** We continue to work with the European Insurance Association (CEA) to ensure that our views are reflected in CEA's policy positions. As a member of CEA's Climate Change Task Force and Sustainable Non-Life Steering Group we provide direct input into CEA's climate change work at European level. (CW principles 2.1 and 2.3)
- **The Green Deal:** The ABI sits on the Department of Energy and Climate Change's Green Deal Forum – the stakeholder group that provides strategic insight on the Green Deal programme from a business perspective. We have also advised DECC on three more specific Green Deal issues: Professional Indemnity insurance for Green Deal assessors, product guarantees, and insolvency risk for Green Deal providers. (CW principles 2.1 and 2.4)
- **Party conference engagement:** The ABI, in partnership with the Local Government information Unit (LGIU), held fringe events on flooding at each of the three main party conferences in late 2010. The aim of these events was to highlight the importance of continued Government funding in this area and the

need for a long term strategy on flood defences, given the rising flood risk due to climate change. (CW principle 2.2)

- **ABI Flooding Conference:** The ABI flooding conference in November 2010 brought together almost 200 insurers, flood risk professionals, Government officials, media and consumer representatives to discuss key flooding issues such as flood defence funding, the consumer experience of making properties resilient, and the expiry of the Statement of principles in 2013. (CW principle 2.2)
- **Climate Week:** The ABI provided a message of support for the Climate Week initiative in March 2011, and promoted the event to members. (CW principle 2.2)
- **Joseph Rowntree Foundation project on climate change and social justice:** The ABI sits on the JRF Climate Change and Poverty Programme Advisory Group, providing input on insurance related aspects such as risk based pricing, affordability of cover and vulnerabilities. The Climate Change and Poverty Programme is examining the geographies of climate change in the UK, with a particular focus on poverty and vulnerability. (CW principle 2.4)
- **Engagement with emergency services:** The ABI is engaged in several national and regional groups to improve the communication between emergency responders, government and the insurance industry. For example, the ABI is represented at the Cabinet Office's Recovery Capability Board and is engaged in work to look at the industry's own resilience and business continuity process for catastrophic events. In particular, we took part in the recovery phase of Exercise Watermark – the Government's nationwide flooding emergency exercise - in March 2011, and have organised an insurance-specific re-run of the event later in 2011. During 2011's floods in Cornwall, ABI acted as a first point of call for the insurance industry, providing information and liaising with authorities on the ground. (CW principle 2.5)
- **Flood Forecasting Centre:** The ABI is working with the Flood Forecasting Centre to try and facilitate insurers being provided with their detailed flood warnings, which would help insurers manage their emergency response in the event of a major flood. (CW principle 2.5)



Principle 3: Support climate awareness amongst our customers

3 Support climate awareness amongst our customers

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

On this principle, the ABI's aim is to promote an understanding and fair relationship between the industry and consumers in the UK, and to ensure that our members are able to continue to treat their customers in this way in the context of a changing climate. We keep consumers up to date on our work through conferences, speeches, media activity and policy publications. Our work on this principle includes:

- **Treating customers fairly work stream:** We have worked with our members to incorporate, where appropriate, the findings of the FSA's Climate Change Thematic Review into policy wordings. (CW principle 3.1)
- **ABI guidance on insurance for new developments and flood resilient repair:** ABI guidance documents created in 2009 on insurance issues for new developments (which highlights the vulnerability of buildings to climate change and urges the property industry to take action to ensure that future developments are both climate resilient and energy efficient) and on resilient repair after a flood remain a key part of the insurance industry's communication with consumers vulnerable to climate risks such as floods. The documents can be accessed on the ABI website, <http://www.abi.org.uk>. (CW principles 3.1, 3.2 and 3.3)
- **ABI policy publication – 'fighting flood risk together':** The ABI produced this policy document for the ABI flooding conference in November 2010. It is aimed at both the industry and consumers, and sets out a wide range of policy positions relating to flood risk, including flood defences, the planning system and individual consumers making their properties resilient. "Fighting Flood Risk Together" can be found on the ABI website, <http://www.abi.org.uk>. (CW principle 3.1, 3.2 and 3.3)
- **Advising insurance customers:** ABI has been involved in a range of sectoral meetings and discussions to promote climate change awareness amongst businesses and individual customers. (CW principle 3.1 and 3.2)

- ABI spoke at a UK Climate Impacts Partnership event in Oxford aimed at small businesses, to highlight the impact that climate change could have on flooding and flood insurance in future years.
- ABI is a member of the London Climate Change Partnership, which aims to promote the importance of adaptation in London.
- **ABI engaged in ClimateWise's 'Sustainable Claims' workstream:** ABI is a member of the ClimateWise sustainable claims project, which is working with the Carbon Trust to identify the environmental impact of major claims and the repair process - for example, escape of water, fire and flood claims - with a view to reducing the environmental impact of these claims. (CW principle 3.3)



Principle 4: Incorporate climate change into our investment strategies

4 Incorporate climate change into our investment strategies

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

The ABI is a trade association funded by annual subscriptions and does not maintain an investment portfolio of its own. Neither is it our role to instruct our members on their own investment strategies. However, through our Investment Affairs, we actively engage with the fund management function of our members on a variety of issues, including climate change, with the aim of promoting efficient markets and long term value. Through our publication 'Guidelines on Responsible Investment Disclosure' the ABI provides a list of disclosures, which institutional investors would expect to see included in the annual reports of listed companies. The Guidelines encourage companies to identify and manage material environmental, social and governance risks to the long and short-term value of the business, including climate change, where appropriate. The Company's disclosures should include information on how the Board considers these risks and the policies, procedures and verification systems in place to manage them (the full Guidelines can be found at www.ivis.co.uk/ResponsibleInvestmentDisclosure). (CW principles 4.1, 4.2, 4.3, 4.4)

The ABI has advised its Pension Fund Trustees that it supports the ClimateWise Principles and suggested that this should be taken into account when considering investment decisions. (CW principle 4.5)



Principle 5: Reduce the environmental impact of our business

5

Reduce the environmental impact of our business

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

- **Suppliers:** When tendering contracts we ask for environmental policies at the pre-qualification stage and companies who cannot provide these are not invited to tender. (CW principle 5.1)
- **Energy efficiency:** In 2009 the ABI commissioned Maleon (M&E consultants) to carry out an energy efficiency review to highlight the areas where the biggest energy savings could be achieved. The results of this review proved that the chillers and associated plant was the area in which we should concentrate most of our efforts.

At the suggestion of Maleon we then carried out further investigation into the district chilled water and heating mains from a combined heat and power plant supplied by Citigen. Whilst this scheme seemed ideal from a carbon reduction viewpoint as the emissions from the current chillers and boilers would have been completely removed, other key factors such as the lack of infrastructure already in place and extremely high installation costs meant that we were unable to pursue this scheme any further.

We have since completed the design work to replace our existing chillers with new ones that are more energy efficient. The installation will take place in September 2011. After this we will then produce new energy performance certificates to demonstrate the improvements that have been made.

Our new maintenance contractors have now been on site for 18 months. In that time they have made a number of improvements to the maintenance regime and also the operating hours of the plant that uses the most energy. The existing chillers and boilers now run for a reduced number of hours each week. (CW principle 5.2)

- **Action in the workplace:** In May 2011 new printers were installed in the ABI office. On these machines, all documents sent to black/white printers are set to EconoMode by default, which means they use 30% less toner. We have also set up colour control on the colour printers so that some documents (that do not need to be in colour) are printed in black/white even if they are sent to a colour printer. (CW principles 5.2 and 5.4)
- **Carbon footprint:** Our carbon footprint for the year January – December 2010 was slightly higher than the previous year (1053 CO₂e compared to 977 CO₂e) – this is despite the efforts of our maintenance contractors to reduce our energy usage. The increase is generally attributable to another year of extreme weather. Long haul flights have reduced by 38%, but short haul flights have more than doubled, mainly due to the amount of work we did in 2010 that was European based. (CW Principle 5.3)

Principle 6: Report and be accountable

6 Report and be accountable

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

The ABI Board and the General Insurance Committee take regular interest in climate risks and are actively steering our work in this area. Through our publications, events and detailed policy work the ABI continues to play a public role in the efforts to reduce the economy's and society's risks from climate change. Our current business plan identifies the need to consider 'future risks' - in particular, to deliver a sustainable framework for flood insurance in the future, and to persuade the Government of the need for sustained, long-term flood defence investment. (CW principle 6.1)

The ABI does not produce Annual Reports, but we are making this annual progress report available to our members and the public on our website <http://www.abi.org.uk>. (CW principle 6.2)