

ClimateWise Review – June 2011



ClimateWise Leaders meet to discuss progress with HRH The Prince of Wales (Clarence House, March 2011)

Foreword

The insurance industry needs to adapt to the effects of climate change, both in developing products (including pricing and who we insure) and the services that we deliver to our customers. The insurance industry has great reach into consumers, investors and different types of asset and is unique in this respect.

At Legal & General we keep a close eye on national and international climate change policy developments and it's certainly been a turbulent year. The economic developments in Europe, the latest power station emission calculations for 2010 and the general consensus that it will be a challenge for the UN Climate Talks in Durban to achieve what was set out in Cancun are all complex, interrelated subjects which we need to be aware of. We are concerned with the recent developments in Europe, particularly the understated value placed on ecosystems which are key to the insurance industry in terms of soil quality and flooding, and the often overlooked impact this issue has on well being. In a report compiled by PWC last year, more than 80 percent of the executives surveyed, believe that regulation and tax incentives motivate businesses to change their environmental behavior (see www.pwc.com/appetiteforchange) and we believe a balanced, cautious approach should be taken in line with governments low carbon transition plan.

ClimateWise helps us to develop an understanding of climate risk across our activities through partnerships and collaboration. Health is a key topic for Legal & General because of our role as a major life insurer and the emerging evidence that links rising temperature with rising cardio-vascular and respiratory conditions (increasing 4% for every degree the temperature rises above 24.8C). This is a real concern (particularly as these issues are estimated to get worse with an ageing population) and we need to shift the perception that it is cold that kills people in the UK as it is heat impacts that are increasingly impacting the insurance of people and their health. We see opportunities to link product groups together. In the future the homeowner whose house gets flooded may have "Crisis Cover" which covers the financial as well as emotional impact that flooding brings. ClimateWise research shows that there is a strong correlation between getting flooded and susceptibility to depression.

The socio-economic impacts of being green should not be understated and we believe the future focus for ClimateWise needs to be on the role that fixed income investors can play in wholesale investment markets to put funding into green infrastructure. This provision of capital must be made easier and should not be dictated by European legislation. We need pension funds to call for common standards and practices, which make it easier for big institutions like the European Infrastructure and World Banks and governments to issue climate or green bonds, where the proceeds are ring-fenced for use in defined environmentally-friendly projects.

We welcome the UK Green Investment Bank and were pleased to hear that the waste sector is to benefit from this initiative. We believe that waste management, particularly the reduction of landfill (and its associated harmful methane gas) is often overlooked when discussing the climate challenge. It is something our environmental management strategy has focused on from day one (please see our 2010 CSR Report for further information (<http://www.legalandgeneralgroupcsr.com/>)).

We have been working in collaboration with ClimateWise since 2008. Climate Change matters to us in two key ways, which span the majority of the ClimateWise Principles:

- being efficient and doing the right thing is part of how we do business - our employees and investors expect us to manage our environmental impacts;
- if we provide the right investment vehicles, our customers stand to benefit from the global response to climate change and any opportunities that may bring.

On a yearly basis our performance as a business is rated against the six ClimateWise Principles and in 2010 we scored 94% against these principles (up 24% on our score in 2009). I hope that you find this years progress review useful and please don't hesitate to get in touch if you have any questions about Legal & General and our position on climate change.

Graham Precey

Head of Corporate & Social Responsibility

Legal & General Group Plc

Email: Graham.precey@group.landg.com

Telephone: +44(0) 1737 370370

Progress review

Principle 1 - Lead in Risk Analysis

1.1 - Evidence that the member has supported or undertaken research during the year in question, with a brief description of the research focus and outcomes and an explanation of how this research has been used to inform business strategies.

Legal & General Response

Our approach.

Environmental, social and governance (ESG) risk analysis takes place across Legal & General Group – the governance structure is described in our [2010 Group CSR Report \(http://www.legalandgeneralgroupcsr.com/our-principles/governance.aspx\)](http://www.legalandgeneralgroupcsr.com/our-principles/governance.aspx).

Our Risk businesses assume customers' financial risks arising from defined events such as death, injury or household damage, while our annuities business protects individuals from the risk of outliving their savings in retirement.

In our risk business, we focus on two key CSR campaigns:

- [Health \(http://www.legalandgeneralgroupcsr.com/what-matters-to-us/risk/health.aspx\)](http://www.legalandgeneralgroupcsr.com/what-matters-to-us/risk/health.aspx)
- [Housing \(http://www.legalandgeneralgroupcsr.com/what-matters-to-us/risk/housing.aspx\)](http://www.legalandgeneralgroupcsr.com/what-matters-to-us/risk/housing.aspx)

As a Group, Legal & General has supported and completed the Carbon Disclosure Project (CDP) questionnaire since its conception and through ClimateWise, we have been core members of the Climate/Health Working Group looking at what climate-related incremental changes in various European morbidity trends mean for health and protection insurers. This began with a seminar for life insurers on the health impacts of climate change as they relate to the insurance industry, led by leading practitioners from University College London (UCL) and the Chartered Insurance Institute (CII) designed to look at the link between health and its impacts upon people's abilities to work and live – see below for further information.

Protection, Health and Extreme Weather

We are concerned with how changing weather extremes may affect health and protection customers. As a general rule you are four times more likely to die from heat exposure than cold and this clearly has implications for our Group Protection and Life Business. The ClimateWise Protection, Health and Extreme Weather working group is now coordinated with the ABI's Protection Strategy Committee and we have commissioned the London School of Hygiene and Tropical Medicine to research Continuous Mortality Investigation from Critical Illness and Income Protection claims data.

For those interested in the issues surrounding the London area, the [short report](#)

Principle 1 - Lead in Risk Analysis

Legal & General Response

(<http://www.london.gov.uk/lccp/publications/londons-changing-climate-sickness-health.jsp>) from the London Climate Change Partnership, which aims to help health and social care providers start to adapt their services to the new requirements that will be imposed as a result of climate change, is worth inspection. The report demonstrates how The Department of Health, The Greater London Authority, The NHS London, The Health Protection Agency and other key health stakeholders are placing climate change as a strategic issue.

Following the March 2011 visit to Clarence House, our Group Chief Executive Officer, Tim Breedon, commented that:

"ClimateWise has been an effective forum for collective engagement on issues that are common to us all."

"There is clear merit in collective industry engagement with external expertise, in this case with London School of Hygiene and Tropical medicine, which can form a background against which individual firms to take their own commercial decisions, like we do ourselves with epidemic scenarios in our risk planning. "

For more information on this part of our business, visit the [Risk](#) section of our annual report:

(<http://reports.legalandgeneralgroup.com/2010/ara/ourperformance/riskbusinesses.html?cat=b>).

General Insurance

The most significant risk Legal & General has with climate change is its General Insurance business' solvency through weather catastrophe. As a result, we have invested heavily in data from external sources for pricing, underwriting and capital modelling purposes.

According to the [Guardian](#) (<http://www.guardian.co.uk/environment/2011/feb/16/climate-change-risk-uk-floods?INTCMP=SRCH>), scientists have, for the first time, quantified the role of human-induced climate change in increasing the risk of a serious flood, such as those in England and Wales in 2000. The estimated cost (to the insurance industry) of the following 2007 flooding was around £3bn, and again, according to The Guardian:

'An audit into the cost of 2009's floods in Cumbria has been revealed as £276m, but some assessors say this is an underestimate. The report comes less than two days after Cornwall racked up its own £6m bill after a brief but devastating storm.'

[Read the full story here](#)

Flooding is a constant hazard to life and property. We know from the Environment Agency's national

Principle 1 - Lead in Risk Analysis

Legal & General Response

assessment of flood risk (published in June 2009), that:

- one in six homes in England is at risk of flooding;
- over 2.4 million properties are at risk of flooding from rivers or the sea in England, of which nearly half a million are at significant risk; and
- one million of these are also vulnerable to surface water flooding, with a further 2.8 million properties susceptible to surface water flooding alone.

As well as flooding from rivers, the sea and surface water, there are significant risks for some communities from groundwater flooding and water from failed or overflowing reservoirs. The scope of this National Flood Emergency Framework for England 2010 (DEFRA) extends to these risks as well.

We continually research for increased sophistication in our ratings, especially for flood, subsidence and storm perils, the ones most affected by climate change. This enables better understanding of these risks and for pricing to be more accurate, which is fairer for customers. Customers contribute to the pool to an extent, which is fair for the risk their property represents, and then the number of people being financially penalised (by living in low-risk properties that are in high-risk areas e.g. close to a major river but on a hill) is reduced.

We work with several organisations to share knowledge, data, ideas and models. This collectively improves national and regional forecasting which helps calculate overall risk exposures in relation to major flood or storm events, as well as improved individual pricing, as referred to above.

1.2 - Evidence that the member has supported more accurate national and regional forecasting (either through their own work or through collaboration with/support of others), with a brief description of the relevant activity.

Please see response to 1.1 above.

1.3 - Narrative confirming that the member has used its research or improved data quality on climate to inform

With regard to General Insurance products, we are investing heavily to improve our understanding of flood and subsidence risks. These are the two parts of cover most affected by climate change so it is worth investing in people, modeling and analytical tools and data to improve understanding, pricing and underwriting.

Principle 1 - Lead in Risk Analysis

levels of pricing, capital and reserves

Legal & General Response

Improved understanding is passed on to customers in various ways and we regularly review the household insurance market through research provider Defacto and there are positives in terms of new house construction being more environmentally friendly, although the messages tend to be quite mixed. For example there might be increased rebuild costs on these types of buildings which can push up premiums, but these homes tend to have better protection against fire and flood, which may in turn reduce claim costs. In general newer houses have lower insurance rates but this is a constantly changing landscape.

Subsidence

Customers are made aware of the impact of trees and shrubs in close proximity to their property and what they need to do to reduce subsidence risk (the risk varies by type of tree e.g. willow and soil type e.g. London clay, compared to chalk or granite). Modern claims settlement revolves around removal of the problem e.g. improved drainage or pollarding of trees rather than underpinning. If trees have to be removed they are replaced by the planting of new trees, but of a type and at a distance that does not represent risk to the property.

Flooding

The UK is one of the only countries in the world where flood insurance remains an integral part of property insurance. To enable this to continue we need to ensure that flood risk is kept under control and properly understood. At Legal & General, we purchase data that improves the ability to differentiate risk, down to individual property level. This helps some people whose property was previously identified as moderate or high risk to now be rated as average or low risk. For people for whom a flood claim has been settled, we identify this as a high-risk area and work with the customer to identify flood prevention measures for the future rather than just declining to continue cover.

General support

Legal & General supports industry initiatives that have developed principles to continue to provide cover for people in certain high-risk flood and subsidence areas. The industry collectively, through the Association of British Insurers (ABI), has been responsible in these areas for a number of years.

The information in Legal & General Insurance's policies, together with advice and guidance, are getting very favourable reviews. Legal & General has gone to great efforts to explain to customers what is and what is not covered in a clear manner, and what they can do to help minimise the risk.

A practical and sustainable solution to replace the ABI Statement of Principles in 2013 is a priority, to ensure that flood hazard and flood risk data is kept as accurate and up to date as possible. This data needs to be shared fairly between the Environment Agency, insurance companies and other stakeholders without compromising the competitive nature of the insurance industry. Legal & General's new Managing Director has committed to be more involved with ClimateWise in 2011 and 2012 with a view to reviewing the ClimateWise Principles and to

Principle 1 - Lead in Risk Analysis

1.4 - Evidence that the member offers goods and/or services that support the development of new technologies for tackling climate change.

1.5 - Evidence that research has been shared.

Legal & General Response

advise which aspects the business should focus on.

Please also see our response to 1.1 above.

Legal & General's Household Insurance (including Buy to Let) currently includes cover under the Buildings contract for wind turbines, solar panels and ground source heating pumps.

In Legal & General Investment Management (LGIM), we have recently launched two new funds which address this topic:

- the [UK Equity Carbon Optimised Index Fund](http://www.legalandgeneralgroup.com/media-centre/press-releases/2011/group-news-release-916.html), which aims to reduce exposure to financial risk from the transition to a low carbon economy and rising energy costs (for further information visit <http://www.legalandgeneralgroup.com/media-centre/press-releases/2011/group-news-release-916.html>);
- the [Global Environmental Enterprises Fund](http://www.legalandgeneralgroup.com/media-centre/press-releases/2011/group-news-release-916.html), which aims to provide capital growth primarily through investment in companies that are profiting from the global response to energy scarcity, pressures on natural resources and the shift to a lower carbon world economy. This fund is a passively managed product, which aims to profit from investment in companies that are providing solutions to the problems posed by energy security, resource scarcity, global warming and population pressures. Simon Ellis, Managing Director of Legal & General Investments, said at the launch of this product:

"We are launching the fund to provide investors with access to one of the major investment themes of this decade. Across the world, companies are delivering growth and value in sectors such as low carbon energy production, energy efficiency, waste management and water use. These 'environmental enterprises' are leading the drive to greater energy and resource efficiencies."

We have launched the fund in partnership with Osmosis Investment Management, an award winning specialist investment manager and independent index provider. They focus on identifying investment opportunities in the transition to a cleaner, more efficient and less carbon-intensive world. Embedded below are a number of brochures and Q&A documents related to this product:



For further information visit <http://www.legalandgeneralgroup.com/media-centre/press-releases/2011/group-news-release-916.html>.

Please see response to 1.1 above.

Principle 2 – Inform Public Policy Making

2.1 - Evidence that the member has worked with policymakers nationally and/ or internationally to help them with climate resilience, with a brief description of the relevant activity.

Legal & General Response

International progress

In 2009, Legal & General Investment Management was actively involved with the Princes Rainforest Project in the creation of their Rainforest Bond concepts for the United Nation Copenhagen Conference.

Note: Please also see Section below on Incorporating Climate Change into Investment Strategies.

In addition to this, Legal & General has supported ClimateWise in producing statements on the United Nations Framework Convention on Climate Change (UNFCCC) negotiations and also for The Prince of Wales' Corporate Leaders Group on Climate Change 'Copenhagen Communiqué'.

ClimateWise is now officially the insurance industry partner of the World Climate Summit (WCS), which ran a business conference alongside the UNFCCC climate negotiations in Cancun. In a similar vein to Copenhagen, ClimateWise and a coalition of investor groups (the P8 group of public pension funds and the IIGCC) including Legal & General, delivered an International Investor Statement to the UN negotiators and in January 2011 the ClimateWise Secretariat and a number of members attended and presented to the 1st Asian Climate Change Summit in Singapore to promote awareness in this region.

In June 2011 we met with the Brazilian organisation, Biofillica to discuss their rainforest project proposals in the Brazilian Amazon. We provided specialist advice related to our business in the hope that this company can shape and design an investment vehicle, which we would be happy to further explore. There are many challenges around protecting such important resources and this leads on from our work with the Princes Rainforest Project prior to Copenhagen in 2009.

Furthermore, we are involved in the construction and launch of an International Communiqué for the Durban climate negotiations, which will be generated by networks of businesses from around the world looking to maintain a progressive voice in relation to government-led action on climate change.

National progress

In the UK we continue to engage with policymakers in relation to business, investment and climate change, namely:

- Coordination of the ABI Investment committee on the 2011 DEFRA mandatory green house gas consultation in line with the Climate act 2008.
- Attendance at the P8 (the grouping of the world's largest 8 pension funds) to talk about how climate

change can be factored into pension investments through the positioning of the Green Investment Bank.

- Engagement with the ClimateWise managing committee to approve investment in understanding - “What are the new risks and opportunities faced by fixed income investors as a result of climate change?” , which fits nicely with the Green Investment Bank agenda where assets can be invested in Infrastructure.

We believe the insurance industry has a number of opportunities to respond to the pressing issues of climate change. The industry is particularly relevant given the long-term nature of many projects, which are core to delivering sustainable infrastructure.

We are talking about incorporating new instruments, which have standalone commercial benefits into asset portfolios rather than creating “unique” assets that have discrete attractions based on “CSR” factors and this was a recurring theme at the P8 Summit in Brussels. For this to work, the climate change and financial regulation agendas need to be aligned, or at least regulation should not steer asset allocation decisions away from sustainability related financing.

There are two key themes:

1) Climate Bonds

We welcome the development of Climate Bonds (Green Bonds) where underlying exposure is to the issuer's (e.g. the World Bank) credit rating but proceeds are ring-fenced for categories of specific sustainable investments. For some investors, liquidity and lack of historic performance data is a negative (this came up at the P8). However, some insurers have certain categories of illiquid long-dated liabilities (annuities in the UK, certain types of guaranteed products in other jurisdictions), which we match with appropriately long-dated assets on a “buy and hold” basis. Here liquidity arguments have historically been less relevant given bonds are unlikely to be traded: hence for example “Green” private placements could be attractive, depending obviously on terms and underlying credit.

The availability of liquidity and extensive market data (another point raised at the P8) is of greatest importance where there is a regulatory requirement to value assets on a market consistent or mark-to-market basis. The more market consistency is offset by appropriate dampeners such as application of a liquidity premium, the more likely it is that companies could invest in innovative instruments lacking a deep and liquid market and a long track-record.

2) Asset-backed Securities (ABS)

This was highlighted at P8 as one area where sustainable infrastructure financing may evolve. This squares with

Principle 2 – Inform Public Policy Making

Legal & General Response

our own model for Green Investment Bank funding. There are some holdings of ABS by UK annuity funds already, but future investment is likely to be affected by the shape of Solvency 2. The challenge will be to ensure the final regulatory regime does not make it punitive to hold such instruments but rather that capital requirements are based on default assumptions rather than other factors such as liquidity.

2.2 - Evidence that the member has promoted, actively engaged in, or supported representative organisations in public debate on climate change and the need for action.

With regard to public debate, the ClimateWise Group represents Legal & General on this stage.

Work in the last year has included:

- Strategic lead taken by Legal & General Insurance to develop and deliver the ClimateWise three year vision and strategy.
- In July 2010 we worked with Bureau Veritas Consulting Ltd to deliver a breakfast briefing alongside Fair-trade consultants to discuss lessons learnt by all organisation in the carbon chain of custody in the supply chain.

For further information please see response in 2.1 above.

2.3 - Evidence that the member has supported work to set and achieve national and global emissions reductions targets.

Legal & General sets its on targets related to climate change and these are set in line with UK Government targets, for further information please visit:

<http://www.legalandgeneralgroupcsr.com/our-principles/environmental-efficiency.aspx>.

Please also see our response to 2.1 and 2.2 above.

2.4 - Evidence of work with Government.

As was referred to in the foreword above, the majority of large companies (as surveyed by PWC) believe that voluntary agreements are ineffective and more than 80 percent of all executives surveyed by PWC, believe that regulation and tax incentives motivate businesses to change their environmental behaviour. On this basis we have engaged the ABI Investment Committee to respond to the various options put forward by DEFRA for mandatory carbon reporting as required under the Climate Act 2008 (for further information please see www.pwc.com/appetiteforchange).

Legal & General actively participates in ABI initiatives (via the Property Committee and Property Claims Forum) aimed at influencing Government thinking around preparing for, and responding to, weather events such as the floods of 2000, 2007 and 2009. There was a perception across the industry that more is needed to be done in terms of supply chain alignment and customer communication. Evidence of progress can be seen in the positive feedback from customers to Legal & General's management of the Cumbria flooding of

Principle 2 – Inform Public Policy Making

Legal & General Response

November 2009. However, those affected by floods and similar catastrophes remain unconvinced about the longer-term benefits of resilient repairs - the timeliness and quality of remedial work are much higher on their list of priorities.

Please also see responses to 2.1 and 2.3.

2.5 - Examples of how the member has worked with the emergency services to make the process of recovery after an incident as efficient and effective as possible.

Helping our customers deal with floods.

The autumn of 2000 was then the wettest since records began in 1766. The heaviest rainfall in that season was across England and Wales, with a total of 489 mm falling between September and November; the most extreme rainfall was in October, which resulted in extensive flooding and UK insurance claims adding up to around £1 billion. Many of the same areas of southern UK flooded again in early 2003.

Floods have also been in the news more recently, with the one year anniversary of the Cockerthorpe flood and the recent floods in Cornwall. Following the floods in Cornwall we published a [webpage](http://www.legalandgeneral.com/insurance/home-insurance/insurance-news-articles/flood-damage-to-your-property.html) (<http://www.legalandgeneral.com/insurance/home-insurance/insurance-news-articles/flood-damage-to-your-property.html>), which provides practical tips to help customers both before and after a flood.

Tim Breedon, Legal & General's Group Chief Executive and Chairman of the Association of British Insurers (ABI) spoke at the ABI's 'Fighting flood risk together' conference on Wednesday 24 November 2010, where he set out some ways that the insurance industry can help, such as: investment in technology and infrastructure; sharing flood risk between consumers, government and insurers; and keeping data up to date and accurate. He said that insurance is only part of the solution in dealing with floods as it just deals with the aftermath - in our local communities we need to consider the issue more so that we fight flood risk together. [Read his speech here](http://www.abi.org.uk/Media/Articles_and_Speeches/52356.pdf) (http://www.abi.org.uk/Media/Articles_and_Speeches/52356.pdf).

Emergency planning is at the heart of the civil protection duty on Category 1 responders under the Civil Contingencies Act 2004. The Act requires Category 1 responders to maintain plans for preventing emergencies; reducing, controlling or mitigating the effects of emergencies; and taking other action in the event of emergencies. Multi-Agency Flood Plans (MAFPs), allow all responding parties to work together on an agreed coordinated response to severe flooding.

Where events impact on multiple customers e.g. flood or major storms or alternatively to describe the customer experience felt in a total loss situation, then in each of these scenarios the supply services we are likely to work with can be arranged on two levels: first response would involve engaging loss adjusters, building repair networks, restoration specialists and glazing and drainage suppliers; second response would involve the contents repair/replacement suppliers. In such situations our supply chain would work alongside the authorities

Principle 2 – Inform Public Policy Making

Legal & General Response

and be directed by them to gain access to the affected areas.

Process of Recovery

At the centre of Legal & General Insurance's current claim management philosophy is the principle of ensuring the customer experience is a good one despite their current circumstance. In the event of a claim of 'disastrous' proportions or a widespread event, we will appoint a loss adjuster to manage the claim on our behalf. The loss adjuster will communicate with and provide regular progress updates to the customer throughout their claim and is responsible for overseeing the deployment of other emergency services, supervising and managing the reinstatement of works as well as coordinating the repair/supply of replacement goods once reinstatement has taken place.

Legal & General has a documented surge event plan in place, which we will implement where required to support such events. This plan deploys a dedicated surge response team from across the different business areas within Legal & General Insurance to work alongside our supply chain to effectively manage events. Legal & General and its suppliers may adapt claims handling functions to 'ring fence' any work unique to the event and respond to the demands of this event, ensuring customer contact is dealt with effectively and efficiently.

Supplier performance is critical during this period, with the use of management information to monitor the work and resources required to effectively complete the recovery process. Where required support will be sourced and provided from other parts of our business to assist with the management of an event. This is also the case within our key suppliers' businesses.

Legal & General Insurance teams have visited the affected sites, undertaken customer visits and spent time at the response centres set up by lead suppliers in the area to gauge first hand how things are progressing and feed information back into the business to adapt our response and claims management as needed. In addition, independent customer care/review work may be initiated and contingency supply arrangements may be called upon and/or allocation of work to suppliers adapted according to resource availability to ensure continuation of service delivery.

Lessons learned through joint working with our suppliers will influence the specification of future supply contracts, performance measures, claims handling philosophy and product wording to improve future efficiency and effectiveness.

Investment and occupied property portfolio

All our occupied offices and investment properties (where services are provided) are certified to the international standard for environmental management (ISO14001). This includes site specific incident

Principle 2 – Inform Public Policy Making

Legal & General Response

management plans and at a number of shopping centres these plans have been tested and rehearsed with the emergency services.

Principle 3 – Support Climate Awareness Amongst Customers

Legal & General Response

3.1 - Description of the ways in which the member informs its customers of climate risk, with concrete examples of tools that the member provides to customers to assess their own levels of risk. New initiatives that have taken place during the year should be given particular emphasis, but a description of the latest progress of existing initiatives is also important.

To manage and maintain its customer policies, Legal & General must use paper, energy and transportation. In 2007 the company changed its reporting in response to feedback from Business in the Community (BitC) to ensure that customers are aware of the impact of their products on the environment at a “Per policy” level. See our 2010 CSR Report for further information:

<http://www.legalandgeneralgroupcsr.com/our-principles/environmental-efficiency.aspx>.

Commercial Property contributes between 30 and 40% of UK CO2 emissions hence our focus is with our investment property occupiers (via Legal & General Property Ltd), rather than retail clients as with many traditional insurers.

There has been a lot of work to engage occupiers typically of multi occupier properties on their buildings performance (see response to section 4.3 below) and we are leading the way in developing and rolling out the Green Lease, keeping the energy costs down for our occupiers. Our research shows that engagement on this issue can also leads to lower void rates within our funds.

In 2010, we assisted Perfect Pensions/ Incisive Media in the regulation feature regarding the CRC Energy Efficiency Scheme Regulations and the impact they may have on pension trustee companies with investments in property. There is scope within Legal & general Investment Management (LGIM) to carry out trustee education and other external communications on how climate change can impact investments and how we are engaging on it - we hope to report on in next years review.

Principle 3 – Support Climate Awareness Amongst Customers

3.2 - Description of insurance products and services provided by the member that are designed to encourage customers to adapt to climate change or reduce carbon emissions. The focus should be on specific progress during the year, whether increased take-up of existing products and services or launch of a new product or service, bearing in mind market conditions.

Legal & General Response

As part of future thinking and development we are looking at online servicing, which will enable our customers to manage their household policy online, thus negating the need to print and send out documents. In addition, Legal & General Insurance are working on an initiative that will allow customers to be able to view any correspondence online, for example, if a customer requires a copy of an insurance quote.

A number of services are being reviewed and implemented in line with this, namely:

Direct product proposition

Legal & General Insurance is considering how they can build electronic communication into the direct product proposition. The intention is to build online servicing, e-fulfilment and a personalised portal into the development of direct product.

Secure email/databases

Legal & General Insurance has implemented a new archiving retrieval system (called Dejar) to view actual GI policy documents securely online, supported by resolving any customer queries in a timely manner. Legal & General are now scoping phase two, which will allow customers to choose paper or secure online documents. Benefits would include improving the speed of getting documents to our customers and reduced print, paper and postage costs. This would also reduce our carbon footprint with reduced emissions due to transporting less printed material and mailing reduced volumes through postal services.

General Insurance has also recently started piloting secure email in situations where we have a defined business need and we can control it (the early warning system), which is reducing the amount of paper used. To roll secure email out more fully, other parts of the Group need to review their business requirements for communicating with the IFA market which is likely to incur costs through the adoption of further software products.

Customer letters

In 2009 a project took place to reduce the volume and length of our standard operational letters throughout General Insurance Operations. Before starting this initiative approx 3,500 standard letters were being sent out each week, which were typically 2-3 pages long. This has been reduced to approx 1,700 letters each week, which are only one page long.

Merlin Claims Lounge

Merlin Claims look after Legal & General Insurance's larger claims (£3K<M<£100K for contents, £5K<M<£100K for buildings). Customers are now able to track the progress of their claim online through Merlin's online tracking

Principle 3 – Support Climate Awareness Amongst Customers

Legal & General Response

system, Client Lounge so that when Merlin are appointed to handle a customer's claim, the customer can monitor every step of the journey on this website using a pin number that they will receive in an initial letter from us, reducing the paper needed to communicate with customers.

In addition to this new printers have been rolled out across Legal & General Group so that more business communications can be printed double sided.

As stated previously, Legal & General's Household Insurance (including Buy to Let) provides cover under our Buildings Contract for wind turbines, solar panels and ground source heating pumps.

General Insurance works proactively with Defaqto (an independent financial research company) attending industry discussions regarding product development and rating of specific features. As part of these discussions, Defaqto have raised the need to monitor 'greener' features across the industry, which Legal & General and its peers have agreed with.

Further information on how Legal & General Property manages its products and services in an environmentally responsible manner can be found in section 4 of this review. Please also see our response to section 1.4 which has details about our Global Environmental Enterprises Fund in Legal & General Investment Management (LGIM).

3.3 - Description of the system in place to ensure that repairs are carried out in a sustainable way and waste is minimised.

Replacement and Repairs form part of the Making a Claim section of the General Insurance policy for household and home and contents. Our policy is to repair rather than replace is economically viable to do so.

Legal & General Insurance contracts are in place with all approved suppliers and these clearly define our performance expectations. Typically, each supplier will be expected to adhere to a range of service level agreements including, but not limited to, customer contact, visit, reporting, initiation of works, elapsed time of claims and management of work in progress.

A Supplier Services Team regularly engages with suppliers through review meetings to discuss their performance against these contractual requirements and, where necessary, agree continuous improvement action plans with the supplier to ensure a quality service is delivered and claims costs are managed effectively.

By the nature of their business, many of these are also key suppliers under the Environmental Management System Standard ISO 14001. Regular engagement with suppliers throughout the period of the contract include twice yearly questionnaires undertaken to understand their environmental impacts; working with suppliers to further develop strategies and targets to reduce the level of resources they consume, the level of waste going

Principle 3 – Support Climate Awareness Amongst Customers

Legal & General Response

to landfill and carbon produced. An annual review is undertaken to assess the level of waste going to landfill in the process of handling our claims. Claims values are also monitored to identify any Site Waste Management impacts. Regular review meetings and supplier workshops discussions take place to take forward initiatives based on supplier feedback.

In January 2011 we ran a public relations campaign related to this issue with coverage in the Scotsman, Sky News Radio, [Insurance Times \(http://www.insurancetimes.co.uk/story.asp?sectioncode=13&storycode=388831\)](http://www.insurancetimes.co.uk/story.asp?sectioncode=13&storycode=388831), [Post \(http://www.postonline.co.uk/post/news/1938692/brokers-unprepared-household-fraud\)](http://www.postonline.co.uk/post/news/1938692/brokers-unprepared-household-fraud) and a variety of regional radio and press. The campaign was prepared with the help of our Fraud Services and Intermediary Partnerships Marketing Teams, SBS, one of Legal & General Insurance's fraud specialists and Ortis Deley, presenter from The Gadget Show, the campaign contained 12 videos, demonstrating just how durable many gadgets are, with an independent panel of people, plus comment from Andy Webb, GI's Operations Director and Lesley Main from SBS, available to view at the [FraudStoppers webpage \(http://www.legalandgeneral.com/fraudstoppers\)](http://www.legalandgeneral.com/fraudstoppers).

3.4 - Evidence of engagement and action on climate change issues in the developing world.

This is not of direct relevance to Legal & General as it is a predominantly UK based company and the majority of overseas business is through joint ventures. The company has recognised the importance of ESG engagement in these countries and further details can be found in our 2010 CSR Report.

Principle 4 – Incorporate Climate Change into Investment Strategies

Legal & General Response

4.1 - Narrative that clearly recognises where climate change is a driver of financial value for a range of sectors across their whole portfolio and shows this to be incorporated into the investment decision-making process.

Legal & General's campaign for ESG Integration and Good Corporate Governance can be found at: <http://www.legalandgeneralgroupcsr.com/what-matters-to-us/investment-management/Default.aspx>

Climate change is part of bigger dialogue on environmental issues that can impact financials but, as set out in section 4.3 below, our property investment business is leading the way on helping occupiers reduce their energy costs and are at the forefront of developing Green leases.

As set out in section 1.4 above, for clients that want climate change risk factored into their investment mandates we have set up sophisticated vehicles with environmental investment specialist and FTSE to do this.

Also, as set out in 1.5 above, we are pressing for a ClimateWise Investment Collaboration in 2011 to help members understand the changing investment landscape in partnership with the P8 group of public pension funds and we are keen that it includes a specific focus on fixed income portfolios. We are looking into and attending a workshop with other ClimateWise members to review the Swiss Re statement of principles regarding the management of environmental, social and ethical risks in business transactions.

4.2 - Evidence that the member has, either directly or through its fund manager, encouraged its investee companies to disclose information on their carbon emissions.

Legal & General Investment Management (LGIM) have engaged with the UNPRI and in 2010 they agreed to include an explanation about passive funds and how they relate to the principles which resulted in LGIM signing up to the principles in September of last year.

LGIM encourages investee companies to disclose information on carbon emissions through direct dialogues as well as through endorsement of initiatives such as the Carbon Disclosure Project (CDP).

**Principle 4 – Incorporate
Climate Change into
Investment Strategies**

4.3 - Narrative to explain how the member seeks to improve energy efficiency and climate resilience in the properties in its investment portfolio.

Legal & General Response

Sustainable Property Investment.

We take our sustainability credentials very seriously. As a responsible property investor and developer, we believe the most valuable way of making our properties more sustainable is by changing the way we manage all of the properties we own. This approach currently makes us unique in our industry.

"Sustainability is a crucial part of the decision making process and working culture at Legal & General Property"

Bill Hughes
Managing Director Legal & General Property (LGP)

Legal & General Property is a leading UK property fund manager responsible for managing or co-managing 16 separate funds or vehicles and two segregated mandates, with an aggregate asset value of over £9.8bn as at end of December 2010. At Legal & General Property, we are working hard to make sustainability an integrated part of what we do every day. As a leading property investor and developer, we are going beyond the industry norm of 'greening' some of our portfolio, instead seeking to make every single one of the properties that we manage as efficient and sustainable as possible.

The case for sustainability is perhaps clearest when considering our environmental impacts, where efficiency enables us to deliver lower costs for occupiers and better returns for investors by avoiding unnecessary expenses arising from purchasing, disposal or regulation relating to resource use. Beyond our own business, the built environment currently creates 40% of UK carbon emissions and 33% of UK waste to landfill, so our management of resources can have a significant impact on the finances of our own business as well as the wider environment.

Social sustainability for our properties is equally important for our business. We need to ensure that our investments deliver long-term benefits for the communities that live near, or work in, our properties, so we are committed to engaging with them throughout our ownership of the asset. In addition, our stakeholders and clients increasingly expect us to integrate sustainability into our investment considerations. We believe that in future years, sustainability will be a core element of an Investment Manager's responsibility, and in this respect we are determined to show leadership.

Finally, employees increasingly want to work for a company that has sustainability at the heart of day-to-day decision-making. We are focused upon attracting, retaining and developing high-calibre people, and believe that a commitment to sustainable property helps us to do this.

In 2011 we have published our first Sustainable Performance Report for our Commercial Property Business.

Principle 4 – Incorporate Climate Change into Investment Strategies

Legal & General Response

http://www.legalandgeneralgroupcsr.com/downloads/PDFs/13781_L&G_SR10.pdf

Key areas of delivery in 2010 have been:

Sustainability risk management

Legal & General Property have set up sustainability systems and procedures to include social and risk management as part of our sustainability strategy which we continue to grow, with input from industry research and a strategic review by a third party consultancy, Upstream Sustainability Services. As a result of this review, we now have in place a process that covers numerous criteria relating to environmental, social and economic sustainability of assets. We review all new assets against these criteria, and also use them to look at sustainability risks in our existing portfolio.

Climate change and energy

In addition to consumption management of all properties, we've identified our top 24 properties, which account for around 80% of our energy spend as a business and have in place focused reduction targets for these properties, put in place with managing agents and energy advisors.

Resource use and Environment

All multi-let properties meet the requirements of ISO 14001. 100% of our service charge properties are accredited, with new acquisitions targeted to join them the following year. Beyond this, we continue to develop procurement controls to ensure materials and resources are sourced responsibly, and that contractors and suppliers have in place appropriate policies for environmental sustainability.

Sustainable communities

Community engagement occurs at both our multi-let and development sites where helping the environment and our neighbours encourage a long-term beneficial relationship.

Our work with the community including St Joseph's Primary School for our Central Saint Giles Development, highlights the commitment made to the local community. Our partnership with The Homes and Communities Agency and MUSE on the English Cities Fund (ECF) is also an example of our work to strengthen existing communities through the investment we make. ECF seeks to increase private investment in regeneration projects, which are both viable and worthwhile for our underlying investors, but which also bring community and environmental benefits.

4.4 - Proactive communication of investment strategies on climate change to customers

We have a continuous dialogue with our clients, mainly pension schemes, about how we are engaging on Environmental, Social and Governance (ESG) issues, including Climate Change. We aim to further increase such communication through trustee education programmes going forward.

Principle 4 – Incorporate Climate Change into Investment Strategies

Legal & General Response

and shareholders.

4.5 - Evidence that the member has shared its assessment of the impacts of climate change with its own pension fund trustees (and potentially also with pension fund trustees who are clients).

In 2009 one of Legal & General Investment Management's analysts attended an ESRC/ACCA Socially Responsible Investment and Climate Change seminar to discuss the findings from research carried out (over one year period) to address trustees' attitudes towards climate change and its potential impacts on their funds.

The main findings and recommendations were:

- They still lack of awareness about the issue. Government and the institutional investment community need to raise awareness.
- Some view that their investment fund managers are in charge of delegated ESG risks, but they are not committed to considering potential climate change impacts, and not engaging with investee companies on these impacts.
- The composition of trustee boards needs an appropriate mix of senior but also more junior members of the pension fund.
- There is a need for a code of practice or policy document for trustees on climate change.
- More training is needed within the investment community about the risks and opportunities arising from climate change.

The core topics were followed by lively discussions on the role of trustees and the time/ resources to consider all the investment issues, which questions the idea of trustees in the first place. The consensus at this seminar was that the trustees should be asking pertinent questions to their assets managers about managing this particular risk.

In addition to this, the 2009 UKSIF "Responsible Business: Sustainable Pension" report produced evidence that a group of Responsible Investment (RI) champions is beginning to emerge among UK corporate pension funds. It is thought that trustee leadership is beginning to drive this change.

The survey found that trustees of three quarters of surveyed funds now believe that ESG (environmental, social, governance) factors can have a material impact on the fund's investments in the long term. Two thirds of trustees thought it was important to align the plan's RI policy with the fund sponsor's CSR policies.

It is clear from this that investment managers need to position themselves to re-examine investment processes and engage more effectively with pension fund trustees. Our own internal pension fund managers need to engaged with on this topic and this is something we looking to review in 2011/ 2012.

Principle 5 – Reduce the Environmental Impact of our Business

Legal & General Response

5.1 - Description of processes in place to select or monitor suppliers on the sustainability of their products and services.

We encourage our suppliers to improve the sustainability of their products and services as well as supporting them to reduce their consumption of energy.

The sustainability of products:

We have developed specifications for paper and other key commodities, which are determined through a risk assessment of their major impacts. Those who can supply products that satisfy these specifications directly affect our choice of supplier.

An example of this process is illustrated by the selection of the Paper Company to supply copier paper to Legal & General. The current product adopted, Discovery FSC, meets the requirement for the paper to be FSC certified with a full change of custody (FSC C006287) and only suppliers who can supply paper which meet these criteria were and will be considered.

Legal & General purchases approximately 2,000 tonnes of paper per annum. Since 2009, we have worked with our suppliers to ensure that the paper used for our internal and external correspondence is derived from sustainable sources i.e. accredited by FSC or PEFC. The scope of the project included paper used for marketing literature, letterheaded correspondence, application forms and envelopes as well as internal copier paper. The outcome of this project is that by June 2011 our external correspondence and internal papers are FSC certified with the security of an uninterrupted chain of custody.

Supplier selection and monitoring

Legal & General has a risk assessment process for both its indirect impacts i.e. its suppliers and its indirect impacts i.e. the products it purchases.

Risk is determined by reference to the FTSE4GOOD guidelines (available from the FTSE website as follows: http://www.ftse.com/Indices/FTSE4Good_Index_Series/Downloads/company_engagement.pdf)

For 2011, the Key supplier criteria reflected an emphasis upon risk as follows: -

“Key Suppliers are whose goods or services are within the High and Medium Impact sectors as determined by reference to FTSE4GOOD guidelines (above link and table below) and, where the spend level is greater than £250K in 2010”:

Our procedures ensure that key suppliers identified through this risk based process are evaluated and engaged on environmental issues. The Risk & Project Manager works directly with any key suppliers who fail to achieve a

Principle 5 – Reduce the Environmental Impact of our Business

Legal & General Response

satisfactory status, to support their improvement.

Legal & General's procurement and supply management activity is subject to ISO14001 certification. By 2007, Corporate, IT and General Insurance Procurement were subject to the accredited UK Procurement Environmental Management System. In 2008, ISO14001 certification under the UK Procurement EMS was extended to the purchasing centre responsible for the maintenance of our main operational facilities. In 2009, the accreditation was extended again to include our Fleet management personnel. The ISO14001 accreditation now covers the activities of all of our purchasing centres.

Engagement with suppliers including carbon management

100% of Legal & General's environmental key suppliers identified through the above process are subject to the UK Procurement EMS. Engagement on environmental risks and opportunities is a fundamental part of the programme of continuous improvement.

Where suppliers have ISO14001 accreditation, we review their Aspects register for progress against agreed goals and opportunities to collaborate.

Suppliers are requested to produce a risk assessment to reflect the environmental impacts of their impacts and then work with their relationship manager (assigned this responsibility) to agree targets. The aim is to agree 'quick wins' as well as longer-term goals, which emphasise the potential economic benefits of agreeing action.

Carbon management within our supply chain

Implementing the Carbon management strategy for Legal & General's supply chain has been the focus of procurement activity this year and our suppliers have supported our activities in this area.

In its 2008 interim report, Legal & General published its intention to establish and report the carbon footprint of its supply chain in the 2010 CSR report. We therefore commissioned Bureau Veritas to produce a questionnaire, which would allow this data to be captured. To understand our supplier views on our carbon strategy and specifically the completion of the questionnaire, we invited our key suppliers to a Carbon Masterclass in November 2008.

In 2009, we established that our key suppliers i.e. those with the highest use of energy used 2,134 tonnes which could be indirectly attributed to us. In 2010 and 2011, we have been working with suppliers to understand how we might collaborate to reduce energy and also understand how they have performed against their goals

Principle 5 – Reduce the Environmental Impact of our Business

Legal & General Response

In 2010, the carbon questionnaire was updated and used to engage further with suppliers. Throughout last year, we worked with suppliers to record their carbon emissions and the proportion indirectly attributable to Legal & General.

Last year, we developed our 'Sustainable Office Guide' to help provide support on how our suppliers might run their offices more sustainably. We have publicised the Guide to our suppliers and suggested that it may be a useful source of ideas especially when thinking about the environment and specifically reducing their energy use. Feedback from our suppliers has been very positive – as an example, here is a comment from the Environmental Manager at Crown Records Management:

"Thanks for the document that I will use to support our efforts in what we already do on a global basis. I will ensure that this reminder is available to all employees UK & Ireland."

In 2011, we have continued to work with the suppliers with the highest indirect emissions to understand how we can collaborate to reduce this figure.

5.2 - Description of how the member is measuring the environmental impact of its operations and explanation of steps that the member is taking to reduce the environmental impact of its own operations.

Our business impacts are under control and have been for some time due to the longevity of our environmental programme and ISO14001 certifications. We have year on year reduction of environmental impacts of our business for the past 5 years – please see our 2010 CSR Report section on Environmental Efficiency (<http://www.legalandgeneralgroupcsr.com/our-principles/environmental-efficiency.aspx>).

Our work in 2009 on asking suppliers to disclose CO2 emissions was case studied by ClimateWise as best practice because of its approach to apportioning the carbon they emit by the percentage of revenue we spend with them. We estimate around 20% of our carbon emissions are in the supply chain.

Legal & General Property also report on a number of climate and energy related objectives and targets through the Group CSR Report (see section 4.3 above for further information) along with:

Legal & General Property 2010 performance against plans:

<http://www.legalandgeneralgroupcsr.com/our-performance/kpis-2010/kpi-3.aspx>

Legal & General Property 2011 targets:

<http://www.legalandgeneralgroupcsr.com/our-performance/targets-2011/investor-commitments.aspx>.

Principle 5 – Reduce the Environmental Impact of our Business

Legal & General Response

5.3 - Evidence that the member has disclosed its direct emissions of greenhouse gases, using a globally recognised standard.

Please visit our 2010 CSR Report section on Environmental Efficiency (<http://www.legalandgeneralgroupcsr.com/our-principles/environmental-efficiency.aspx>).

5.4 - Description of steps that have been taken during the year to engage employees with indication of impact/take-up.

Please visit our 2010 CSR Report section on Environmental Efficiency (<http://www.legalandgeneralgroupcsr.com/our-principles/environmental-efficiency.aspx>).

In the last year we have produced two key internal communication pieces related to ClimateWise. The first was following last years review and came from Geoff Howard, our Strategy Director within General Insurance (GI), who explained to employees why climate change matters to Legal & General. The second went out from our Group chief Executive Officer, Tim Breedon, following his ClimateWise review meeting with HRH The Prince Of Wales in March 2011.

This is in addition to our standard Environmental Policy, Employee Induction and computer based environmental awareness packages, which we have reported on for a number of years.

Principle 6 – Report and be Accountable

Legal & General Response

6.1 - Identification of Board level sponsor for climate change strategy and evidence for incorporation of climate risk into business strategy and planning.

Our Group Human Resources Director, who is a member of the Executive Committee, chairs the Legal & General Group Environment Committee. The Group Board is briefed on climate change and regulations such as the UK's Carbon Reduction Commitment and its implications for the business in terms of capital and risk management.

In 2010 Legal & General Group ran management development sessions for its top management on risk and reputation management. We were also commended last year for putting external analyst reports on our ESG performance within our CSR report, so that people could make up their own minds about our performance.

6.2 - Annual statement that systematically details actions taken (specific or ongoing) against each element of each of the Principles.

Legal & General updates its approach to environmental management annually against its core principles and also against public targets set out in the CSR Report.