

LLOYDS  
BANKING  
GROUP



INSURANCE

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Lloyds Banking Group Insurance Division  
2011 Climatewise Submission



PRINCIPLE 1 – LEAD IN RISK ANALYSIS	
Commentary required	Examples
<p>1.1</p> <p>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.</p>	<p>Lloyds Banking Group (LBG) continues to support the ABI on a number of climate change projects. Research this year has focused on the flood working group – the future of flood insurance after the Statement Of Principles end in 2013. We attend the Property Committee and General Insurance Committee.</p> <p>An internal flood working group has been established. Members of various General Insurance teams meet on a regular basis to discuss strategy and any new issues.</p> <p>LBG is also committed to supporting research into Climate Change via schemes such as membership of the Lighthill Research Network, Ad hoc research – for example, a visit to HR Wallingford has increased our knowledge of how flood water affects a property's structure.</p> <p>The Lighthill Risk Network is a not-for-profit organisation, which brings together scientific research worldwide, industry (initially Insurance), government and third party organisations in exchanging risk-related expertise.</p> <p>During August 2011 LBG will be taking part in the insurer specific version of 'Exercise Watermark' a government led emergency flood scenario which will allow the industry to plan and react to a staged event. The research and learning from this will allow us to improve of response to customer in any future event.</p>
<p>1.2</p> <p>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.</p>	<p>LBG continues to support the call for more accurate weather forecasting as per the Pitt report via our membership of the ABI and support for their initiatives.</p> <p>LBG purchase catastrophe models from third party suppliers, helping them to develop their models further.</p> <p>We have undertaken a review of the flood modelling market this year and held proactive discussions with modellers to improve the models.</p>



<p>1.3</p>	<p>Narrative confirming that the member has used its research or improved data quality on climate to inform levels of pricing, capital and reserves.</p>	<p>LBG continues to review the market for data or tools to enhance our Risk Pricing &amp; Underwriting analysis. Using our own data enhanced with the latest view of peril risk from model and data suppliers such as RMS, National Soil Research Institute, NaFra flood data, Experian flood data and Ordnance Survey</p> <p>LBG identifies areas of the country which are at greater risk of flood, via a variety of methods, to inform levels of pricing, capital and reserves.</p> <p>We continue to monitor reinsurance data. Feeding this into our risk analysis complements our understanding of the effects of exceptional weather events on our book.</p> <p>During 2011 LBG has reviewed selected suppliers of Flood models and to ensure that the latest most update view of flood risk is available. The preferred solution covers riverine and urban flood. LBG's own data is also used in the modelling.</p> <p>Data on soil type across all of the United Kingdom is used when pricing buildings insurance to give an enhanced understanding of subsidence and heave. Soil Moisture Deficit is also closely monitored by our Risk Pricing and Claims areas to ensure potential subsidence and flood events are identified quickly and reacted to.</p> <p>Depending on brand, in postcode areas where subsidence is deemed to be a potential issue for buildings insurance an extra question is asked to understand the property's proximity to trees. This gives LBG an opportunity to advise the customer of the potential subsidence hazard this could cause.</p>
<p>1.4</p>	<p>Evidence that the member offers goods and/or services that support the development of new technologies for tackling climate change.</p>	<p>The LBG product sold under the Halifax brand in the Retail network includes a questions about Energy Efficiency, which benefits and rewards customers with more energy efficient homes with more affordable insurance</p> <p>The Halifax Web Saver account is accredited by The Carbon Trust <a href="http://www.halifax.co.uk/savings/carbon_trust.asp">http://www.halifax.co.uk/savings/carbon_trust.asp</a> It has a footprint of 200g which LBG is committed to reducing.</p> <p>Our home insurance product covers solar panels, wind turbines and generators as standard [see 3.2]</p>



<p>1.5</p>	<p>Evidence that research has been shared.</p>	<p>LBG attends a variety of seminars and conferences in order to discuss and understand the latest issues. These include</p> <ul style="list-style-type: none"> <li>GI Pricing Seminar</li> <li>ABI Flood Working Group</li> <li>ABI Research</li> <li>GIRO</li> <li>Clay Research Group at Aston University – Subsidence</li> <li>ABI Property Committee</li> <li>Household Technical Group</li> <li>Institute Of Actuaries Climate Change Working Party</li> </ul> <p>It is important to note that we remain keen to have a competitive advantage in this area and remain alert to breaches in competition law so there are occasions when we simply cannot share our information.</p>
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PRINCIPLE 2 – INFORM PUBLIC POLICY MAKING		
	Commentary required	Examples
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.	LBG representatives have attended quarterly meetings with Government (DEFRA, Treasury etc) to discuss flood protection development and encouraging customer take up of resilient materials
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.	<p>LBG continues to work with the ABI on a number of climate change related activities, including:</p> <p>Taking a key role in the review of the Flood Statement of Principles and supporting this work as part of the annual review process.</p> <p>LBG General Insurance remains committed to the ABI / Government statement of principles on flooding which ensures that the majority of the nation will be able to continue to protect themselves against flooding by the purchase of flood insurance cover</p> <p>LBG has representatives on the ABI Property Committee and on the Institute Of Actuaries Climate Change Working Party.</p>
2.3	Evidence that the member has supported work to set and achieve national and global emissions reductions targets.	LBG is leading the European CSR Alliance Laboratory on the Communication of Non-Financial Performance
2.4.	Evidence of work with Government	<p>Further to the work already outlined, a number of senior executives sit on government organisations such as the Scottish Governments' Climate change business delivery taskforce.</p> <p>We have also submitted the attached communiqué to Parliament.</p> <p><a href="http://www.publications.parliament.uk/pa/cm200910/cmselect/cmenvaud/445/445we10.htm">http://www.publications.parliament.uk/pa/cm200910/cmselect/cmenvaud/445/445we10.htm</a></p>
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.	LBG GI's in house loss adjusting team worked closely with local emergency services in Cornwall in 2010 during the severe flood event and are involved in 'Exercise Watermark' the governments mock flood event exercise.



PRINCIPLE 3 – SUPPORT CLIMATE AWARENESS AMONGST CUSTOMERS	
Commentary required	Examples
<p>3.1</p> <p>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.</p>	<p>LBG General Insurance continues to develop action plans which inform customers of the risks associated with climate change. The balance between an informative one and one which may raise alarm has been sought by making the information available in an everyday way. For example, LBG websites contain tips and advice on what action to take in the event of a flood.</p> <p>LBG Insurance customers receive a magazine at renewal, this has acted as a channel of communication and advice to customers on Climate Change issues such as living in a flood plain, lagging pipes in preparation for freeze events and information on new build energy efficient homes. <a href="http://www.halifax.co.uk/insurance/floodtipsandadvicehome.asp">http://www.halifax.co.uk/insurance/floodtipsandadvicehome.asp</a></p>
<p>3.2</p> <p>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.</p>	<p>LBG offers cover for environmentally friendly products such as solar panels, wind turbines and generators as standard within the policy wording. LBG has completed the implementation of the FSA's recommendations following their thematic review of climate change related policy wording. This ensures that our documentation supports climate awareness.</p> <p>By asking customers about the energy efficiency of their homes in the process of selling home insurance, we hope to prompt customers into reviewing the action they can take to improve this efficiency.</p> <p>Our policy is to be proactive on resilient reinstatement, providing advice and guidance for our customers after a flood claim. The final decision on resilient reinstatement rests with the customer.</p>



<p>3.3</p>	<p>Description of the system in place to ensure that repairs are carried out in a sustainable way and waste is minimised.</p>	<p>LBG's in house loss adjusting team provides advice to customers on resilient reinstatement after a flood claim and work continues to understand the impact of flooding on a property's structure through our relationship with HR Wallingford and also the viability of offering sustainable repairs/replacements to customers via the claims process.</p> <p>We continue to examine opportunities to improve our underwriting footprint to accommodate climate change through analysis of our own data and that of our model RMS.</p> <p>LBG's internet portal for small businesses provides advice on improving their environmental performance. <a href="http://www.smallbusinessjourney.com">www.smallbusinessjourney.com</a></p>
<p>3.4</p>	<p>Evidence of engagement and action on climate change issues in the developing world. NOTE: This will principally be relevant for members with international operations, although other members might also find ways to take action in this area, particularly through collaboration.</p>	<p>LBG is a UK only insurer – not relevant</p>



PRINCIPLE 4 – INCORPORATE CLIMATE CHANGE INTO INVESTMENT STRATEGIES		
Commentary required		Examples
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.	<p>Social, ethical and environmental issues are among the many issues considered when making investment decisions. Further details of how LBG's asset management firm SWIP incorporate environmental issues into their investment strategies are available in the following reports:</p> <p><a href="http://www.swip.com/sites/docs/SiteCollectionDocuments/SWIP%20Document%20Test%20Folder/41790.pdf">http://www.swip.com/sites/docs/SiteCollectionDocuments/SWIP%20Document%20Test%20Folder/41790.pdf</a></p>
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.	<p>Our UK corporate governance policy is aligned with the recommendations made in the Combined Code on Corporate Governance. This sets out guidelines on good practice for the management and operation of UK listed companies.</p> <p>Good governance of a company includes management of the potential environmental, social and ethical consequences of producing or purchasing goods and services.</p> <p>Failure to address these increasingly important issues may result in unforeseen risks and missed opportunities that may impact on shareholder value. Our approach to company analysis and corporate governance includes consideration of these factors.</p>
4.3	Narrative to explain how the member seeks to improve energy efficiency and climate resilience in the properties in its investment portfolio.	<p>Our approach is to discuss with companies those areas that may be most closely related to shareholder value, such as the sustainability of natural resources or risk to reputation. In addition, we offer a number of specialist funds for those clients who prefer an approach that excludes investment in companies involved in certain business activities. An external screening system is used to highlight environmental and ethical risks in relation to holdings and potential investments.</p>
4.4	Proactive communication of investment strategies on climate change to customers and shareholders. NOTE: It is not sufficient to state that the investment strategy is available	<p>Our UK corporate governance policy is aligned with the recommendations made in the Combined Code on Corporate Governance. This sets out guidelines on good practice for the management and operation of UK listed companies</p>



	but not actively communicated.	
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).	Our UK corporate governance policy is aligned with the recommendations made in the Combined Code on Corporate Governance. This sets out guidelines on good practice for the management and operation of UK listed companies



PRINCIPLE 5 – REDUCE THE ENVIRONMENTAL IMPACT OF OUR BUSINESS		
Commentary required		Examples
5.1	Description of processes in place to select or monitor suppliers on the sustainability of their products and services.	<p>Working in partnership to reduce carbon footprint Lloyds TSB, Barclays and TNT have jointly won the Premises &amp; Facilities Management (PFM) awards for Partners in Corporate Social Responsibility.</p> <p>These awards recognise organisations - and their facilities management suppliers. TNT distributes much of LloydsTSB's internal mail, stationery and branch marketing materials. This project resulted in a smaller number of vehicles on the road - and reduced our supplier's carbon footprint by 2600 tonnes a year. In addition, the total miles travelled by TNT when delivering and collecting to Lloyds TSB Group sites has been reduced by more than 2 million miles a year.</p>
5.2	Description of how the member is measuring the environmental impact of its operations.	<p>We have focussed on cutting our carbon emissions from energy use and travel, and improving waste management and recycling. In cutting its carbon emissions by 31% since 2002, Lloyds TSB has saved almost 70,000 tonnes of CO2 each year</p>
5.3	Evidence that the member has disclosed its direct emissions of greenhouse gases, using a globally recognised standard.	<p>Both LloydsTSB and HBOS were leaders in the 2008 Carbon Disclosure Project, the world's largest provider of corporate climate change information to investors, governments and other stakeholders.</p> <p>In 2007 Halifax and Bank of Scotland launched a new climate change strategy for reducing its carbon emissions and giving customers clearer information on its performance. This included buying renewable energy for its whole property estate and displaying energy performance certificates in its buildings.</p> <p>Full details of our environmental performance can be found in our Corporate Responsibility reports.</p>
5.4	Description of steps that have been taken during the year to engage employees with indication of impact/take-up.	<p>We regularly promote environmental travel and behaviour across the company. For example, there have been recent articles on Lloyds Banking Group intranet on topics such as "Train service is just the ticket" (18 June) and "Saving energy across the Group" (10 June).</p>



PRINCIPLE 6 – REPORT AND BE ACCOUNTABLE		
Commentary required		Examples
6.1	Identification of Board level sponsor for climate change strategy and evidence for incorporation of climate risk into business strategy and planning.	Lloyds Banking Group publishes full details on its environmental performance in its Corporate Responsibility reports – which can be found at:  <a href="http://www.lloydsbankinggroup.com/media/pdfs/lloyds_cr_report27.01.10.pdf">http://www.lloydsbankinggroup.com/media/pdfs/lloyds_cr_report27.01.10.pdf</a>
6.2	Annual statement that systematically details actions taken (specific or ongoing) against each element of each of the Principles.	See above