

## ClimateWise Annual Report 2010

RBS Insurance is a division of the Royal Bank of Scotland Group, selling motor, home, travel, commercial and other insurance. Our brands, which include Direct Line, Churchill, Privilege, Green Flag and NIG, are among the best known in the UK.

ClimateWise is a group of leading companies and organisations in the insurance industry. Each organisation is committed to taking action on climate change and to reporting publicly on its performance. RBS Insurance was a founder signatory of ClimateWise when it was launched in September 2007.

As signatories, we have agreed to: lead the way in analysing and reducing risks; support climate awareness amongst our customers; incorporate climate change into our investment strategies; inform and engage in public policy debate; and reduce the environmental impact of our businesses.

This report provides an update on our activity throughout 2010 to address the ClimateWise principles.

## **Introduction**

RBS Insurance is delighted to be part of Climatewise since its inception in 2007. This year has been an excellent year for the initiative, with the reception hosted by the Prince of Wales at Clarence House, which was superbly attended and which included our own chief executive.

There have been a number of changes across the insurance industry since we last wrote this report and there has been a great deal of media attention on how we operate as an industry. Politicians have been focusing in on the cost of motor insurance in a year that saw a rise of upwards of 30% in premiums. The transport select committee's inquiry into this, has recently been re-opened following the report produced by Jack Straw into referral fees.

While there have not been major floods so far this year, the flooding summit in July will need to lay down the foundations of how we insure properties once the Statement of Principles runs its course in 2013. There will be much research and insight that will go into finding a suitable agreement for all of the interested parties. We have worked hard to maintain a steady flow of the Climatewise principles into our business, providing us with a strong platform from which to expand and develop their reach within the business in the coming years.

Some of the highlights we can point to since our last report include:

- Became one of the first insurers to provide insurance for electric vehicles and have committed to supporting the move towards more sustainable forms of vehicles
- Signed up to the FRC Stewardship Code so that our investment strategy can now be one that has a proven sustainable record and an impetus to be greener
- Improved our carbon emissions and reached a 100% renewable rate on contracted electricity we source for our UK and Ireland offices

We will continue our commitment to the principles and I look forward to providing an update on our progress next year.

**Bob Toal**  
**Public Affairs Manager**  
**RBS Insurance**

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## Principle 1: Lead in Risk Analysis

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### **Support more accurate national and regional forecasting of future weather and catastrophe patterns affected by changes in the earth's climate.**

RBS Insurance continues to monitor the effects of flooding and associated damage to the built environment.

RBS Insurance actively supports the revision of the industry/Government agreement called the 'Statement of Principles' (on the provision of flood insurance). As part of the negotiations between the Government and industry on this, the Government agreed to produce additional flood data and maps which will be released to the industry. RBS Insurance actively supports the ABI over the Statement of Principle regarding flood insurance, the current market agreement with the Government which assures customers of the continuing availability of flood insurance for their homes. The agreement will last until July 2013 and there will be a summit which we will be inputting to later this year.

RBS Insurance along with members of the ABI funded research into what steps the industry should take following the July 2013 expiry date. This research was thorough and holistic, taking into account best practice from around the world and sought to merge the needs and requirements of government, industry and consumers. This research will go towards forming the technical, economic and political policy that will shape how this country prepares for and reacts to flooding with a long term view on the part insurance will play. Forecasting and the sharing of data will be a major component of this research.

### **Use research and improve data quality to inform levels of pricing, capital and reserves to match changing risks.**

The financial implications from severe weather events are difficult to quantify, however, we estimate that in the UK, 10-30% of the resulting insurance claims will be made through RBS Insurance. In the Cumbria floods of 2009, we estimate that £40 million of claims were put through RBS, which was a major financial issue for us.

RBS Insurance has developed better procedures to deal with the significant rise in enquiries and claims that arise as a result of extreme weather events. To help us deal with the impacts to our own staff of such events, we have in certain cases provided funds to assist them in any losses they experienced.

If events such as the Cumbria floods were to happen with more frequency in the future, we would need to increase our capital reserves in order to prepare for large volumes of insurance pay-outs. We have not at present taken the decision to increase capital reserves for this reason.

The potential costs of increasing our capital reserves are difficult to quantify, but given the high cost of credit currently we would expect these to be high. After severe flooding in the US two years ago, RBS provided up to \$1500 to each staff member who had lost personal property as a result of the floods.

### **Share our research with scientists, society, business, governments and NGOs through an appropriate forum.**

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## Principle 2: Inform Public Policy Making

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### **Work with policy makers nationally and internationally to help them develop and maintain an economy that is resilient to climate risk.**

RBS is determined to play its part in the global shift to a more efficient, innovative and equitable use of resources and support the UK Government's leadership on climate change.

We actively supported the ABI in re-negotiating the Statement of Principles with the Government. This landmark agreement ensures flood insurance remains widely available to customers. The Statement of principle is still in force but ends in July 2013 by which time we will have negotiated new terms working

with the ABI. As mentioned above, we have agreed to fund the 'next steps' research along with ABI members to shape policy for the post 2013 period.

We saw it as a success on the part we played in lobbying government that the Flooding and Water Management Act was passed in wash-up towards the end of the last parliament. While we were disappointed that there was no target for reducing flood risk put in place, we saw it as a positive step forward and we will continue to work with the new government and DEFRA to shape flooding policy for the better.

#### **Promote and actively engage in public debate on climate change and the need for action.**

Following the publication of our second ClimateWise report, we briefed a number of MPs on the main elements of the report. We have subsequently used our report (and the full ClimateWise Report) as key elements of our business as usual interaction with politicians of all parties.

As a Group we maintain regular contact with NGOs and other interest groups on climate change issues through our stakeholder engagement programmes.

#### **Support work to set and achieve national and global emissions reduction targets**

RBS sets its environmental strategy through its executive-led Environment Working Group. This body has representation from all relevant divisions across the Group and reports into the Board-level Group Sustainability Committee, which is chaired by our senior independent director, Sandy Crombie.

In late 2009, the Group signed the Copenhagen Communiqué; a collective statement from business that called for an agreement between countries that would give business the confidence to invest in solutions to climate change. With or without a legal framework, we believe that co-ordinated multi-stakeholder action is the only way to bring about the structural changes that are required to stabilise carbon dioxide emissions at the levels recommended by the Intergovernmental Panel on Climate Change (IPCC). Despite the disappointments of Copenhagen, we believe the summit served a useful purpose in highlighting the changing geopolitical circumstances and resource and population pressures that must be addressed in conjunction with carbon emissions over the coming decades.

We hold a number of meetings each year with civil society groups and take part in multilateral round-table discussions and consultations on the solutions to climate change. RBS has had a Group Environment Policy in place since 1997 and this policy was most recently updated in 2009. We have responded to the Carbon Disclosure Project (CDP) since its inception and have recently been involved in a pilot project to develop new responder services. Our CDP score for 2009 was 77% and we were included in the FTSE 350 Leadership Index. We also scored 76% in the Dow Jones Sustainability Index and were again included in the FTSE4Good index.

#### **Work effectively with emergency services and others in the event of a major climate-related disaster.**

RBS Insurance was heavily involved in one severe weather related disaster during the past year – the floods in Cockermouth and Aberdeen.

Once again this enabled us to demonstrate our speedy response to such an event. Our field force of Property Insurance Advisors (PIAs) are prepared and ready to work with the emergency services and other category 1 responders to help our customers as soon as possible.

RBS Insurance's procedures for dealing with severe weather events come into force following specific triggers (e.g. a severe weather event issued by the MET Office, winds over 70mph or flood warnings).

A central team co-ordinates the activity of our contact centres, the Home Field Force and a wider supply chain involving disaster recovery firms, loss adjustors and a home repair network. Co-operation with the emergency services is vital in these circumstances.

As a result of our experiences during the floods we have also sourced a bespoke incident management vehicle which since last year's report, has been launched and has been brought on tour around the UK to advise people about the dangers of flooding. It will be deployed during climate/severe weather related incidents to help manage a co-ordinated approach with local emergency services, local authorities and above all effectively assist our customers. All brands managed by RBS Insurance can be handled from one central location nearest to the affected area. Customers will be able to use the 'Battle Bus' to report

claims and use the incident management vehicle as a point of contact to speak to RBS Insurance staff for guidance and support, or even to have a cup of tea and use the toilet.

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### Principle 3: Support climate awareness amongst our customers

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#### **Inform our customers of climate risk and provide support and tools so that they can assess their own level of risk.**

This year, we became one of the first insurers in the UK to insure electric vehicles. We are committed to leading the market in respect of this move towards more sustainable sources of power. We have been heavily involved in the debate around electric vehicles, how they are recharged and the cost of the batteries. We have attended events where the motor car industry has sought the expertise and the support of the insurance industry and we have offered both. We endeavour to be one of the insurers who lead in the support for the transfer over to electric cars and we will inform our customers about the pros of doing so. We will do this by providing like for like figures for energy consumption versus electricity consumption and the cost savings that go with that.

We include 'please recycle' logos on our direct marking to encourage customers to recycle paper documentation.

#### **Encourage our customers to adapt to climate change and reduce their greenhouse gas emissions through insurance products and services.**

*See electric cars section above.*

#### **Increase the proportion of repairs that are carried out in a sustainable way through dialogue with suppliers and developers and manage waste material appropriately.**

We manage the waste arising from our UK 'Accident Repair Centres' (ARCs). Local waste disposal arrangements for these sites have been consolidated within national contracts; a move which has significantly improved the range and total weight of materials recycled and brought additional contractual rigour to our recycling arrangements. Specifically:

Specialist Waste Recycling deals with the waste that comes from repairing cars in our own ARCs and indeed our network of preferred body shop repairers throughout the UK (as we name them as our preferred supplier). SWR deals with a total of 325 body shops in the UK. With regard recycling in the body shop industry as a whole – RBS UK Assistance sites lead the way.

For 2010 recycling figures, see the ARC results box below.

Further to this NSA is also able to minimise its own carbon footprint as far as transport is concerned because it works to a proximity principle, which means the total loss vehicle is collected and moved as close as possible from its location, therefore reducing Co2 emissions. NSA have a group of members nationally whereas other salvage companies, based in one location, can move salvage from one end of the country to the other unnecessarily.

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### Principle 4: Incorporate climate change into our investment strategies

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Since last year's report, we have signed up to the FRC Stewardship Code for all of our investments. We see this as major step in our approach to a more sustainable strategy for our investment portfolio and one which now takes climate change and our role in society into account. This move was the result of wanting to perform better in this Climatewise report, particularly on this principle.

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### Principle 5: Reduce the environmental impact on our business

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In 2010 we commenced the implementation of a Lean strategy across the business. Initially focusing upon our core Sales & Service call centres we are actively engaging our people in helping to bring about a culture that values lean and efficient working practices and principles.

Some of the principles being applied include the removal of 'waste' from the organisation thereby bringing greater focus upon workplace organisation, reducing re-work and movement of itinerary. Typical impacts include reductions in the volume of stationery held/destroyed, reduced printing volumes and reduction in work moving between offices and teams. Whilst not measured such activities are expected to have a positive impact on the environmental impact of the organisation.

### **Motor Accident Repair Network Recycling Performance**

RBS Insurance has transformed the recycling performance of its accident repair business, resulting in 77% of all dry waste generated by RBS Insurance sites in Q4 2010 being recycled. During 2010 a total of 928 tonnes of dry waste went into the recycling process, delivering CO2 savings of over 1300 tonnes. The initiative is fully aligned with RBS Group's Protecting the Environment Policy, which sets out the ways in which the group manages its environmental performance.

### **Background**

In June 2007, RBS Insurance engaged Specialist Waste Recycling Ltd (SWR) to fulfil the function of waste and recycling services provider to help fulfil RBSI's environmental ambitions in respect of the waste created by the accident repair business, UKARC. UKARC is an internal national network of 16 accident repair sites which repair accident damaged motor vehicles for RBS Insurance policy holders. At that time, the only waste stream that was being recycled was metal waste and the recycling performance was approximately 30% by weight.

In addition to the 16 sites owned and operated by RBS Insurance, the company maintains a network of approximately 220 independent accident repair centres known as Tier 'A' repairers. These repairers adhere to a set of operating guidelines written by RBS, ensuring that the RBS Insurance Policy Holders receive a similar service experience to that provided by the UKARC sites. However as the Tier 'A' sites are independent companies (ie not owned by RBS), any influence is not as direct as it is with the UKARC sites.

RBSI commenced work with its Tier 'A' network in 2009 to drive the adoption of waste recycling, and made introductions to SWR as the recommended service provider. As a consequence, by December 31<sup>st</sup> 2010, 54% of the Tier 'A' network of 220 sites had joined the SWR recycling scheme.

### **Activity**

The process follows the traditional activity hierarchy:

- Reduce
- Reuse
- Recycle
- Dispose

SWR were also charged with the responsibility to enable this to happen within the constraints of sensible commercial terms. There followed a consultation process which established how to re-use some of the materials which might otherwise have been discarded and thereby reduce the volume of waste going for disposal.

### **How to recycle more?**

Most waste generated within the motor repair network is derived from the repair of accident damaged cars. The first task was to identify which materials would be viable to recycle, bearing in mind the commercial and operational constraints within the businesses. Jointly, SWR and RBSI decided to concentrate on a list of the following materials in the table below

Material	Incidence	Value	Activity
Paper	Office and workshop	Mid	Place paper bins in the offices
Cardboard	Parts and workshop	Mid	Purchase balers – mill size
Plastic wrap	Parts and workshop	High - mid	Purchase small balers
Car bumpers	workshop	High - mid	Separate collection containers
Other hard plastic	Workshop	low	Separate collection containers
Ferrous Metals	Workshop	High	
Non Ferrous	Workshop	Very High	
Glass	Very low	Low	Supplier offers take back
Wood	Low	Nil	Disposal via energy recovery
Tyres	Workshop	Negative	Disposal via energy recovery

It was important to make sure that the entire staff within the internal and external repair networks knew the strategy of what was expected. Working with SWR, operating manuals were created so that staff from all levels could embrace the concept and understood their role in the recycling process.

### Data Collection and Reporting

The SWR system captures all the data from each waste collection. The segregated waste containers are counted and their weights assessed. These weights are check- weighed periodically.

The data is then assembled into reports which will show, by each waste stream

- Mass (tonnage)
- Collection frequency
- Numbers of segregated waste containers collected each visit
- Recycling performance by weight – by site
- Carbon footprint impact – for the company

The carbon footprint is calculated as the comparison between the re-use of material when compared with extracting virgin material of the same type from source. The carbon footprint calculation uses formulae from the following sources:

*RAY Green House Gas Reductions Report, the Carbon Trust, Which Car and recyclingguide.org.uk.*

### Results – UKARC sites

The reports are analysed by SWR and presented to RBS UKARC management on a quarterly basis

The best performing sites are held up as an example to those poorer performing sites, who are in turn encouraged to adopt the successful practices of their peers. Poorer performing sites are visited and operating practices changed to improve performance.

The Recycling performance over the 18 months from Q3 2009 to end Q4 2010 is summarised as follows:

Category	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Tonnage Recycled	213	232	221	200	247	260
Percentage Recycled	71%	72%	75%	71%	77%	77%
CO2 Saved (tonnes)	302	329	316	287	336	377
'Car equivalent'	283	306	337	309	315	351

RBS Insurance has set a target to get to 80% for the whole business for 2011. 8 of the 16 sites are already achieving this rate and the system will yield an 85%+ performance in ideal conditions.

### Results - RBSI Tier 'A' Network

An 'average' bodyshop achieving a 70% recycling rate of normal bodyshop wastes, will have a carbon footprint saving of around 3 tonnes per quarter. Thus it is estimated that the Tier 'A' initiative is **currently saving 1428 tonnes of CO<sup>2</sup> per annum.**

Category	Q3 2009	Q4 2010
No of Tier A sites in SWR Recycling scheme	12	119
Average Carbon footprint reduction/site/qtr	3 Tonnes	3 Tonnes
CO2 saved/qtr	36 Tonnes	357 Tonnes
Car Equivalent		

For 2011, RBS Insurance is continuing its efforts to convert the remainder of its Tier 'A' network to recycling a minimum of 75%

### 3.2 Express Repair

In Sept 2010 RBS Insurance introduced a new repair concept which aims to vastly reduce the number of new parts fitted to customers' vehicles during the course of body repair. The approach sets out to meet the following objectives:

- Environment – footprint reduction in the recycling areas, reduced part transportation miles, and reduction in paint usage
- Customer – Vehicle repaired in 24 hours
- Repairer – financial reward for repairing parts and reducing footprint

The results to date indicate that 35% of repairs can be affected using the Express Repair method with new part fitment on these cases being reduced by 75% (3.4 parts/repair). To date, 750 cases have been handled through the Express Repair process resulting in 2,550 parts saved.

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## Principle 6: Report and be accountable

### Recognise at Company Board level that climate risk has significant social and economic impacts and incorporate it into our business strategy and planning.

As a continuing member of ClimateWise, our Board recognises the impacts of climate change and seeks to incorporate this into our planning. Our Chief Executive, Paul Geddes, met with the Prince of Wales this year along with other Climatewise members and called for a review of our environmental policy and thinking. Paul Geddes also sits on the Group Sustainability Committee, chaired by Sir Dandy Crombie, which has a robust environmental policy. As we move towards divestment from RBS Group to become a leading insurer in the UK, we will be recruiting consultants to better incorporate environmental policy and climate change into our business strategy.

### Publish a statement as part of our annual reporting detailing the actions that have been taken on these principles.

This report fulfils our requirement to publish an annual statement setting out our actions on each principle. It will be available publicly on our website.

For more information, contact Bob Toal, public affairs manager for RBS Insurance on 0208 285 3671 or by email: [bob.toal@rbs.co.uk](mailto:bob.toal@rbs.co.uk)