

## CLIMATEWISE – REPORTING FOR THE PERIOD TO 30 JUNE 2009

### Introduction

This report covers the activities of Amlin Group companies in support of the ClimateWise Principles for the 12 month period to 30<sup>th</sup> June 2008.

### Principle 1: Lead in Risk Analysis

Amlin is a recognised leader of catastrophe insurance and reinsurance through its offices in the UK, the London and Lloyd's markets and in Bermuda. This leadership position is supported by a strong analytical indemnity stance backed up by research.

1.1 In August 2008 Amlin joined the Risk Prediction Initiative (RPI), which is a research organisation funded by the insurance industry. RPI funds a variety of scientific research, facilitates science business workshops and aims to transfer research results into tools for insurers to better assess risk. There are 11 current sponsors of RPI including insurer State Farm Fire and Casualty, reinsurers Renaissance Re and XL Re and catastrophe risk services provider Risk Management Solutions (RMS). Amlin is specifically funding the Forecasting Group which supports three research projects as follows:

- Robert Hart at Florida State University Robert Hart (Florida State University): The development of anomalous probability forecasts for the threat of higher latitude hurricane impacts. This small project was recently completed and is related to Hart's other work looking at the relationship between poleward moving storms and the storminess of the subsequent winter.
- Jim Elsner (Florida State University): Examining the Relationship between Solar Activity and Atlantic Hurricanes. This work is aimed not only at Solar Activity, but also on larger scale climate variability to understand the interannual variability in hurricane activity and landfall.
- Johnny Chan (City University of Hong Kong): Multi-model Statistical-Dynamical Climate Forecasts of Tropical Cyclone Landfall. This work is a step towards moving seasonal forecasts beyond the usual statistical methodologies towards a coupled statistical-dynamical forecasts. The dynamical forecasts were using previously computed results from ECMWF model runs.

We are in contact with RPI in consideration of which project areas to support with future funding and this may be in the area of weather-related catastrophe risk research and analysis.

- 1.2 As one of the largest managing agents operating in Lloyd's, Amlin makes a considerable contribution to the funding of the Corporation of Lloyd's. The Corporation is itself a member of ClimateWise and has invested in risk analysis through organisations and support of the Lloyd's 360° Risk Insight programme.

Over the past twelve months, 360° Risk Insight have published the following important contributions to knowledge of the potential impact of climate change:

- In April 2009 Lloyd's and the IISS published a joint study on the potential impact of climate change on global security.
- In September 2008 in conjunction with RMS, Lloyd's published a study on UK flooding and coastal defences. This report also makes an important contribution to UK flooding awareness and lobbying for improved preparedness.

During the year Lloyd's has participated in other activities to research climate change including:

- Joining the consortium funding the super computer managed by the Centre for Earth System Intelligence which is located at the Hartree Centre and will improve forecasting of weather and catastrophe claims.
- Taking part in the IBM sponsored Global Innovation Outlook meeting on water
- Sponsorship of the second Catastrophe Modelling Forum which bring together the main catastrophe modelling agencies to discuss issues and areas for research.
- Funding of two PhDs at the London School of Economics into global climate model output and its use in the insurance industry.

- 1.3 Amlin conducts detailed risk modelling on its own portfolio of insurance and reinsurance exposures using in-house models and projecting software models developed by RMS and also AIR Worldwide Corporation. Output from these models is used in three important ways within the Amlin Group:

- To assess and price catastrophe exposed insurance and reinsurance business
- To monitor and assess the impact of potential catastrophes on our portfolio of business
- As a source of data for the dynamic financial analysis modelling of the Amlin business involving the assessment of regulatory and economic capital requirements and the distribution of possible economic returns for our business. We have explicitly recognised

the potential for increased frequency and severity of weather-related catastrophe in this modelling.

- 1.4 For our direct and large risk insurance exposures Amlin is developing the use of mapping technologies to influence pricing and control exposure in areas exposed to wind or flood losses. In the UK, our Commercial Underwriting team has purchased a tool called Mapflow which identifies properties exposed to flood and other perils such as subsidence, and assists with rating policy design and risk management for buyers.

In 2008 Amlin was a 50% co-investor in a new investment management company, Leadenhall Capital Partners, which will launch funds specialising in Insurance Linked Securities. Amlin's Group Finance Director and Chief Risk Officer are directors of the management company. The Management Company received FSA approval in 2008. Amlin Group has provided up to \$75m of initial investment in ILS securities to be managed by Leadenhall. The company employs five staff including one expert catastrophe risk modeller and the RMS system is used for the analysis of the portfolio. Amlin's involvement in this capital markets venture will enable the Group to maintain an active involvement in a developing risk transfer mechanism for insurance risk. It is possible that instruments such as Catastrophe Bonds could be used more widely to transfer weather-related catastrophe risk for insurers, companies and even government or neo-governmental organisations. Amlin will play a role in the development of such solutions for institutions requiring catastrophe insurance.

Amlin is interested in developing commercial insurance policies to assist in protection for new technologies which tackle climate change. Our energy liability team have supported protection for 11 Western European wind farms. Further commercial policy leadership is discussed below in Section 3.

- 1.5 The output from RPI is available directly to members of the initiative, but is disseminated through the press and the academic institutions carrying out the work. The director of RPI, Tony Knapp, has addressed insurance industry bodies such as the Geneva Association.

## **Principle 2: Inform Public Policy Making**

- 2.1 As a leading capital provider and underwriting insurer in the Lloyd's Market, Amlin has supported the actions of the Corporation's management in ensuring that Climate Change remains high on the public policy agenda.
- 2.2 Actions and initiatives in which Lloyd's were involved during the year include:
  - Lloyd's 360° Risk Insight project aims to provide background research which contributes to the debate on climate change. Lloyd's

has organised events to present the research, many of which were attended by Amlin staff.

- The 360° programme also was involved in the joint sponsorship of a study into UK flood and the requirements for better adaptation.

2.3 Other important contributions were made by the Corporation of Lloyd's as follows:

- Involvement in ClimateWise statement in the UNFCCC Copenhagen negotiations in November 2008.
- Participation in the Prince of Wales' Rainforest Project to raise awareness and funding to reduce deforestation.
- Involvement and support for the Poznan Communique calling on agreement for cuts in greenhouse gas emissions.
- Involvement in Geneva Association report on climate change and its impact on the insurance industry.
- Involvement in developing policy towards adaptation through support for the Resilient Coast Blueprint report and the UK coastal study mentioned in 1.1 above.

2.4 Lloyd's has also been engaged with the finance group of the London Climate Partnership (Greater London Authority) and continues to work with policy makers to help them develop and maintain an economy resilient to climate risk. Lloyd's have also attended meetings with MEPs in Strasbourg on ASI or CEA initiatives and actively participated in the EU Commission's Green Week on insurer and adaptation.

2.5 As a provider of catastrophe insurance protection, Amlin is conscious of the need for our policyholders to assist in recovery from a severe event as quickly as possible. This was shown through our funding of advance payments for losses arising from Hurricane Ike in September 2008, a case study on which featured in our 2008 Annual Report.

2.6 Amlin's executive management have been participated in a number of numerous climate related events. The Chief Risk Officer attends and contributes to the Lloyd's Market ClimateWise Group meetings and has attended a number of other ClimateWise sponsored events. An Amlin representative attended the investment workshop organised by ClimateWise. Amlin is actively engaged in meeting the requirements of Carbon Disclosure Project in public information. Our 2008 Annual Report contained a section within the Corporate Responsibility Report covering our involvement in the ClimateWise Group and a description of our activities for each of the 6 principles.

Internally Amlin has given its membership of ClimateWise and related activities strong prominence on its "Matrix" intranet site, and each issue of the company e-magazine contains an article on environmental issues. The Climate Change Panel which is chaired by the Chief Risk Officer is detailed within the Key Internal Group and Committees section. Staff were surveyed and requested to detail their mode of transport for commuting so that the

information could be used in CDP reporting. The Group participated in the Earth hour campaign to turn out lights for one hour and this was given publicity on our intranet.

### Principle 3: Support Climate Awareness Amongst Customers

3.1 Amlin is a leader in the London Market and Bermuda for catastrophe reinsurance underwriting. As such, our leading underwriters aim to recognise steps taken by our ceding insurance clients to reduce the potential impact of catastrophic loss. Our leadership responsibilities include both a full understanding of the risks for the purposes of pricing but also to respond strongly to initiate recovery for clients after a loss. In October 2008 we provided an on account facility with key reinsurance brokers to reduce the claims settlement period for reinsurance clients affected by Hurricane Ike. This was made possible by the modelling capability developed by Amlin over several years. Amlin works closely with the reinsurance brokers to ensure that clients have the most up to date modelling and assessment of their risk.

3.2 The other area where our products have been tailored to meet the needs of clients is our UK Commercial team where we are providing a selection of products. In 2008 we developed a product in conjunction with Lloyd's broker Miles Smith for the UK waste industry. Miles Smith are the appointed broker to the Environmental Sciences Association which works with governments and regulators to bring about a sustainable system of waste management to the UK. Amlin purchased a minority share of Miles Smith in 2008. Recent legislation such as the EC Landfill Directive has set targets for reduction of waste incineration or dumping. This is driving investment in recycling and reprocessing facilities and new requirements for insurers to address. We aim to continue to assist Miles Smith in the development of products for this industry.

Amlin has invested in a 50% ownership of a new company called Leadenhall Capital Markets which is an Investment Management Company aiming to attract investment in Insurance Linked Securities, ILS. These instruments, particularly Catastrophe Bonds, aim to provide capital market solutions to clients requiring insurance cover.

Amlin has also itself allocated investment in the fund. The ongoing development of demand for these alternative insurance mechanisms will be an important feature of the industry in the next few years and the application of such products to the developing world will be a motivation for better research and understanding of the impact of climate change on the potential for weather-related insurable loss events.

3.3 The Lloyd's community and Amlin claims staff have been actively involved in a discussion about the use of sustainable materials in the repair of insurance claims and this will continue into the next reporting year.

3.4 Amlin is keen to engage with the insurance market in the design and delivery of solutions for the developing world for protection against severe weather-related disasters. Our reinsurance underwriting teams are able to consider risk transfer mechanisms such as catastrophe pools and we have instigated a discussion with Lloyd's and the UK Department for International Development (DFID) to consider where our capital markets expertise may be of use in assisting developing countries to deal with the potential for severe disruption from catastrophic events.

#### **Principle 4: Incorporate Climate Change into Investment Strategy**

4.1 Amlin has a policy of carefully selecting asset classes for investment but outsources the majority of specific investment management decisions to a panel of chosen investment managers. The majority of assets are allocated to cash or fixed income investments, although there is a small equity content as well. The managers selected have to sign Investment Management Agreements which contain a responsible investment clause as follows:

"Amlin encourages the Manager, taking due account of the investment objectives that have been set by Amlin for the Manager, to:

- Incorporate environmental, social and corporate governance issues into its investment analysis and decision-making processes;
- Encourage high standards of performance on environmental, social and corporate governance issues as an integral part of its engagement/dialogue and voting activities;
- Seek appropriate disclosure on environmental, social and corporate governance issues by the entities in which it invests;
- Promote responsible investment across the investment industry, and to work with others in achieving this goal; and
- Report to Amlin on an annual basis on its responsible investment activities, in particular the four points above. This will be delivered to Amlin in an electronic format as specified by Amlin, within at least 10 Business Days from the year end."

Also managers are required to report against sustainable responsible criteria (SRI) annually.

We have commenced the engagement with our pension trustees on the adoption of a similar policy.

Amlin has invested \$75m in a fund of Insurance Linked Securities managed by Leadenhall Capital Markets

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

5.1 The Amlin Facilities Department at St. Helen's reports to the CRO and therefore the Climate Panel on steps being taken or considered to reduce environmental impact of our use of products and services. The principle environmental impacts of Amlin operations are from three areas:

- A) Energy use
- B) Air travel
- C) Use of office supplies such as paper, stationery and files.

The use of energy in our offices is only directly controllable in the operations where we are the sole or major tenant. A major proportion of our staff are working in multi-tenancy office buildings. Agreement for staff to travel on company business is given by line management with a view to avoiding unnecessary expense and flying time.

For the 10<sup>th</sup> consecutive year Amlin won a Global Award under the City of London Clean City Award Scheme for management of waste and control of our supplies. In late 2008 the London operations switched paper suppliers to a manufacturer with a Responsible Forest Management Certification. All Amlin e-mails carry a reminder to avoid printing unless necessary.

Our Amlin UK operations based in Chelmsford and Basingstoke have adopted the following practices:

- Current cleaning contractors have an environmental policy statement. Copies of COSHH reports for all cleaning materials have been obtained.
- All contractors (electricians, engineers) and suppliers are requested to submit copies of their environmental and health and safety policy statement and COSHH reports where appropriate.
- AMLIN UK has stated its preference for environmentally friendly products only to be used with all suppliers.
- The Chelmsford office, Amlin House, has movement sensor-driven lights that switch off when the premises are unoccupied and electricity supply to Amlin House, highest usage, moved to "Business Easy Green" tariff for 2009/2010.
- Current photocopiers have a built in automatic stand by mode after a certain time period and all desktop computers are logged out and switched off (including screens) before staff leave the office in the evening.

5.2 In 2009, as we had done in 2005, we estimated our carbon footprint and made full public disclosure via the Carbon Disclosure Project in May. This year's submission again included an estimate of staff commuting energy use, using data obtained via a survey for which a 66% response rate was obtained

5.3 Our CDP6 disclosure aims to meet the requirements for disclosure as recommended by the Greenhouse Gas Protocol. Amlin has engaged Deloitte to assure the 2009 disclosures to review accuracy and completeness under this protocol.

5.4 As in previous years we continue to raise staff awareness of climate issues and we have made a series of communications to staff through our intranet system. We have promoted a cycle to work campaign to all UK-based staff. Also climate change risk was featured in two key speeches made at our management conference in October 2008.

In June 2008 the Amlin Environment Policy was published on our intranet and subsequently on our website. To view this policy [click here](#)

### **Principle 6: Report and be accountable**

6.1 The corporate responsibility section of our annual report outlines our governance structure for dealing with climate issues, gives prominence to our membership of ClimateWise and outlines our activities under the six principles. The Lloyd's Annual Report, website and strategy also gives full disclosure of Lloyd's activities in this area.

6.2 Amlin has reported via the Carbon Disclosure Project 2009, information on which may be accessed via this link, <http://www.cdproject.net/responding-companies.asp> . We understand that our corporate submission will be made publicly available in September.

Amlin continued to be a member of the FTSE4Good Index and through our ClimateWise disclosure Amlin has made a meaningful effort to report under the detailed format prescribed.