



# **CLIMATEWISE REPORT 2009**



## INTRODUCTION

Equity Insurance Group is proud to be a member of *ClimateWise*, the group of leading companies and organisations in the insurance industry which are committed to taking action on climate change and to reporting publicly on their own performance.

ClimateWise has established a set of principles for insurance and reinsurance companies worldwide which provides a framework to help the companies build climate change into their business operations. This report outlines the steps that Equity has taken to follow the ClimateWise principles to date.

It should be noted that as a member of Lloyd's, which itself is a member of ClimateWise, a number of actions are undertaken in conjunction with the Lloyd's market. Whilst some of these initiatives are outlined here, further details on them can be found at [www.lloyds.com/climatewise](http://www.lloyds.com/climatewise).

In addition, as Equity is part of the Insurance Australia Group (IAG) further information on corporate issues can be found on the IAG Website [www.iag.com.au](http://www.iag.com.au).

**PRINCIPLE 1: LEAD IN RISK ANALYSIS**

At Equity we actively participate (through our parent company, IAG) in a number of international research projects focussing on reducing the risk of climate change for our customers and our business. These include both analyses of historical data, and modelling of climate change scenarios to project potential global weather risks. In addition, as franchised Managing Agents of Lloyds, we work closely with Lloyds to deliver this aspect of the ClimateWise initiative.

**SUPPORT AND UNDERTAKE RESEARCH ON CLIMATE CHANGE TO INFORM OUR BUSINESS STRATEGIES AND HELP TO PROTECT OUR CUSTOMERS' AND OTHER STAKEHOLDERS' INTERESTS.**

At Equity we are actively involved in understanding the climate change agenda, and its implications for our, and our customers, businesses. We ensure that we have access to the most up-to-date research on this topic, such as attending the recent event at the Chartered Insurance Institute on Climate Change, and use the information shared with the attendees to inform our business strategies. As a member of Lloyd's, we also support the work being undertaken in conjunction with the *Geneva Association* to produce a special report on the impact of climate change on insurers. Moreover, through Lloyd's, we are supporting academic research carried on in the London School of Economics, which is investigating the role of global climate modelling in business decision-making.

**SUPPORT MORE ACCURATE NATIONAL AND REGIONAL FORECASTING OF FUTURE WEATHER AND CATASTROPHE PATTERNS AFFECTED BY CHANGES IN THE EARTH'S CLIMATE.**

At Equity - and as a Lloyd's Managing Agent - we support the work being done by policy makers at all levels to help develop forecasting of climate-related risks. This includes supporting the new Meteorological Office methodology for forecasting hurricanes based on modelling programmes and statistic data. Similarly, and recognising coastal vulnerability to climate risk, we have supported Lloyds in the recent publication of the "*Resilient Coasts Blueprint*" which focuses on:

- Filling the gaps in understanding of climate impacts
- Requiring risk based land use planning
- Designing adaptable infrastructure and building code standards with future risk in mind
- Strengthening ecosystems as part of a risk mitigation strategy
- Designing flexible adaptation plans which can cope with the inevitable uncertainty in climate forecasting
- Maintaining a viable insurance market; in particular allow risk based pricing
- Integrating climate change questions into due diligence for investment and lending.

This work has involved a combination of insurers, regulators, politicians, environmental organisations, real estate developers and investors to shape the principles.

Lloyds has also recently helped establish the Centre for Earth Systems Intelligence (CESI) as well as catalysing research capability into climate change through the flagship IBM Blue Gene supercomputer system, located at the *Hartree centre*. This specifically supports:

- Storm surge forecasting
- Whole basin arctic coupled ocean-sea ice simulations
- Global ocean coastal modelling
- High resolution climate modelling on global and regional scale for impact assessments
- Mixing and internal waves in ocean models
- Global carbon cycle modelling
- Climate uncertainty
- Linking of socio-economic models with climate models
- Integration of detailed GIS data into weather forecast models

**USE RESEARCH AND IMPROVE DATA QUALITY TO INFORM LEVELS OF PRICING, CAPITAL AND RESERVES TO MATCH CHANGING RISKS.**

Equity has access through Lloyds to specific data collated to help the insurance sector match its financial position to the changing risks. Examples of reports that document this include:

- '*Climate change and security*' (April 2009) which emphasises that climate change is likely to threaten countries' economic and national security, sparking growing tension between states as they compete for increasingly scarce natural resources.
- '*Coastal Communities and Climate change: Maintaining future insurability*' (September 2008) which highlights that adaptation is the key to ensuring future insurability; the response to climate change must be flexible and capable of amendment; property valuations should take account of the level of future risk; the insurance industry has a key role to play in promoting adaptation; and data quality must be continually improved to allow for better quantification and pricing of risk. Brokers have an important role to play in encouraging this.
- '*Adapt or Bust*' (June 2006), about the impacts of climate change and their influence on insurance business. The report also explains the necessary actions which should be taken to prepare before the situation will get worse and the need of communication within the sector and government on policymaking levels.
- '*What Next on Climate Change*' (October 2007) which identifies the key issues about producing long term strategies and plans regarding climate change.
- '*Rapid Climate Change*' which highlights potential changes caused by climate change, which can be more significant on some regions more than others and the way the cooperation with scientists should be established while modelling, developing strategies, set rates and capital requirements.
- '*2010 ICA Minimum Standards and Guidance*', which contains the Financial Services Authority's (FSA) requirement for Individual Capital Adequacy Standards (ICAS), which includes the advice on climate change. The aim of this guidance is to help to ensure that climate change trends are taken into account in capital modelling.



**EVALUATE THE RISKS ASSOCIATED WITH NEW TECHNOLOGIES FOR TACKLING CLIMATE CHANGE SO THAT NEW INSURANCE PRODUCTS CAN BE CONSIDERED IN PARALLEL WITH TECHNOLOGICAL DEVELOPMENTS**

At Equity we regularly review reports highlighting potential new technologies to help tackle climate change and its impacts. This helps us to understand the risks associated with these technologies and will allow us to develop new insurance products to support the technologies.

**SHARE OUR RESEARCH WITH SCIENTISTS, SOCIETY, BUSINESS, GOVERNMENT AND NGOS THROUGH AN APPROPRIATE FORUM.**

Through Lloyd's, which is a member of the Lighthill Risk Network amongst others, we support the communication and sharing of knowledge regarding climate change risk with a complete range of businesses, scientists and government organisations. As an example, the Lighthill Risk Network is mandated to help companies to use the most up-to-date research results and database, and to give scientists the opportunity to cooperate with various companies and government organisations.

Lloyds also shares its research on climate change with Society at large by publishing and distributing through a variety of media, including Lloyd's *bloggers*.

**PRINCIPLE 2: INFORM PUBLIC POLICY MAKING**

Our parent company IAG is actively involved, in Australia, in working with a range of stakeholders from government, industry, and non-government organisations (NGOs) to inform public policy and help develop a global economy that is protected from the consequences of climate change. Such work has included both researching policy issues (e.g. regarding the provision of insurance protection and security to the community) and active participation in parliamentary inquiries. In the UK, Equity is working closely with Lloyds to deliver this aspect of the ClimateWise initiative, as outlined further below.

**WORK WITH POLICY MAKERS NATIONALLY AND INTERNATIONALLY TO HELP THEM DEVELOP AND MAINTAIN AN ECONOMY THAT IS RESILIENT TO CLIMATE RISK**

Equity (through Lloyds) is a member of the London Climate Change Partnership. This body, convened by the Greater London Authority is specifically tasked with influencing policy makers to develop and maintain a climate change resilient economy.

**PROMOTE AND ACTIVELY ENGAGE IN PUBLIC DEBATE ON CLIMATE CHANGE AND THE NEED FOR ACTION.**

As a member of ClimateWise, we are actively engaged in the public debate on climate change and the need for action. We are also involved in a range of networking programmes with other organisations from the insurance sector, government and scientists. For example, through Lloyds, Equity has access to campaigns and debates under the banner of the Lloyds 360 Risk Project and 360 Live Debate which are intended to engage society and business in public debate on key risk issues, including climate change

**SUPPORT WORK TO SET AND ACHIEVE NATIONAL AND GLOBAL EMISSIONS REDUCTION TARGETS.**

Through Lloyds, Equity supports the international work towards reducing Greenhouse Gas emissions.

Lloyds also supports the *Poznan Communiqué*, which was launched at the United Nations Climate Negotiations in Poland in December 2008 and which:

- Calls for political leaders to agree to material cuts in greenhouse gas emissions over a well defined and short timescale.
- Stresses that an ambitious framework for change will provide businesses with the certainty they need to act on climate change.
- Argues for early action to stop tropical deforestation and noted that this is a cost effective step.
- Recognises that developed countries have to accept emission reduction commitments that exceed the global average target and so doing demonstrate a low carbon growth strategy can work. However, it also stressed that developing countries must agree to targets by 2020.



At Equity we try to do our bit for national and global targets by monitoring our own Greenhouse Gas emissions on an annual basis and taking actions to improve our environmental performance.

**SUPPORT GOVERNMENT ACTION, INCLUDING REGULATION, THAT WILL ENHANCE RESILIENCE AND REDUCE THE ENVIRONMENTAL IMPACT OF INFRASTRUCTURE AND COMMUNITIES.**

At Equity we have not been involved in any particular government action aimed at enhancing resilience or reducing the environmental impacts of infrastructure and communities to date. However, through all our operations, Equity look to minimise our own impacts on the environment and, in so doing, support the national targets and goals.

**WORK EFFECTIVELY WITH EMERGENCY SERVICES AND OTHERS IN THE EVENT OF A MAJOR CLIMATE-RELATED DISASTER.**

At Equity we have developed appropriate contingency plans so that, in the case of a major climate-related disaster, we are ready and able to cooperate fully with the emergency services. This was demonstrated during the 2007 floods when our team worked 7 days a week to meet customers' expectations and bring the situation under control.

**PRINCIPLE 3: SUPPORT CLIMATE AWARENESS AMONGST OUR CUSTOMERS**

At Equity we are actively working to raise awareness about climate change among our customers. In particular, together with IAG, we have been working to develop guidance and sustainable products to make our domestic and motoring customers more climate-aware and to assist them to reduce their climate-related impacts.

**INFORM OUR CUSTOMERS OF CLIMATE RISK AND PROVIDE SUPPORT AND TOOLS SO THAT THEY CAN ASSESS THEIR OWN LEVEL OF RISK**

Whilst we work closely with our customers, including providing support on issues associated with climate risk, we have not yet developed any specific tool for assessing individual levels of risk caused by climate change. Should customers wish to do this however, we are able to point to a number of other tools that are already available on the internet.

**ENCOURAGE OUR CUSTOMERS TO ADAPT TO CLIMATE CHANGE AND REDUCE THEIR GREENHOUSE GAS EMISSIONS THROUGH INSURANCE PRODUCTS AND SERVICES**

At Equity we recognise our ability to influence everyday choices of our customers through our products. The development of new insurance products and services is an ongoing process, and climate change and adaptation is no different. We are proactively working with the rest of IAG to promote behavioural change amongst our customers to meet these needs.

**INCREASE THE PROPORTION OF REPAIRS THAT ARE CARRIED OUT IN A SUSTAINABLE WAY THROUGH DIALOGUE WITH SUPPLIERS AND DEVELOPERS AND MANAGE WASTE MATERIALS APPROPRIATELY.**

At Equity we have set up several projects to create new solutions for current products and make customers more aware of the consequences of their day-to-day decisions on climate change, whilst helping them to choose more environmentally-friendly options. For example, a new initiative implemented within Motor Insurance products works alongside our main salvage disposal agent Copart, to help ensure that repairs are made in a sustainable way. This is very important to us as we are responsible for about 200,000 repairs per annum in the UK. We therefore encourage our Repairers to:

- Use recycled parts where appropriate
- Replace courtesy cars with newer low CO<sub>2</sub> emission models
- Use plastic repairs wherever suitable

Pollution prevention is encouraged by minimising the number of vehicle movements between locations. In addition, and as the UK's largest Motorcycle insurer, we are currently piloting a specialist Motorcycle repairer (4<sup>th</sup> Dimension) which uses recycled parts and offers an increased repair rate / reduced number of total losses.



**CONSIDER HOW WE CAN USE OUR EXPERTISE TO ASSIST THE DEVELOPING WORLD TO UNDERSTAND AND RESPOND TO CLIMATE CHANGE.**

Equity currently has limited exposure to the developing world, although through our support for Carbon charities such as Leapfrog we are looking for opportunities to assist in this area.

**PRINCIPLE 4: INCORPORATE CLIMATE CHANGE INTO OUR INVESTMENT STRATEGIES**

**CONSIDER THE IMPLICATIONS OF CLIMATE CHANGE FOR COMPANY PERFORMANCE AND SHAREHOLDERS VALUE, AND INCORPORATE THIS INFORMATION INTO OUR INVESTMENT DECISION-MAKING PROCESS.**

Our parent company (IAG) has allocated some 8% of its shareholders' funds (approximately \$A150m) to invest directly into opportunities that contribute to a sustainable and low carbon economy. In addition, and as a signatory to the UNPRI (United Nations Principals for Responsible Investment) we encourage asset owners, fund managers and brokers to integrate Environmental, Social & Governance (ESG) considerations into the investment decision making process.

**ENCOURAGE APPROPRIATE DISCLOSURE ON CLIMATE CHANGE FROM THE COMPANIES IN WHICH WE INVEST.**

Since Equity invests primarily through external funds managers we are usually one step removed from the companies in which we invest. However, as a signatory to the UNPRI we encourage our funds managers to consider sustainability in their investment processes when analysing companies. Where we undertake specific green investments (as outlined below), analysis and disclosure requirements are even more stringent.

**ENCOURAGE IMPROVEMENTS IN THE ENERGY-EFFICIENCY AND CLIMATE RESILIENCE OF OUR INVESTMENT PROPERTY PORTFOLIO.**

IAG has invested in a specific UK "green" commercial property fund managed by Climate Change Capital. In addition, IAG's 2008 review demonstrates the following about our approach to sustainable investing:

- By aligning our investment philosophy with a broader sustainability framework, we target opportunities to support environmental, social and governance (ESG) issues.
- As a foundation investor in Generation Investment Management (GenerationIM) we have access to the International Equity Fund - one of the first to integrate sustainability research within a rigorous fundamental equity analysis framework.
- Through our Sustainable Investment Fund we can invest in the Climate Solutions Fund, which supports companies that are part of the solution to climate change.
- By investing in Arkx Carbon Fund we aim to contribute to a low carbon economy by supporting a microgeneration wind turbine development.

**COMMUNICATE OUR INVESTMENT BELIEFS AND STRATEGY ON CLIMATE CHANGE TO OUR CUSTOMERS AND SHAREHOLDERS.**

The IAG Annual Review (which is publicly available on its website) is the primary mechanism used to communicate with our shareholders and customers and includes details on our investment approach such as those outlined above.

**SHARE OUR ASSESSMENT OF THE IMPACTS OF CLIMATE CHANGE WITH OUR PENSION FUND TRUSTEES**

IAG and the Super Plan (via IAGAM) have coinvested in the Generation Climate Solutions Fund managed by Generation Investment Management. This is a hybrid public and private equity style fund that invests in companies that are contributing to a low carbon economy. Supporting this fund is part of IAG's commitment to tackling climate change, and through IAG Equity support the choice of the first four initial priority areas which will bring climate change solutions:

- Renewable Energy Generation and Distribution
- Energy Efficiency and Demand Destruction
- Carbon Markets and Climate-Related Financial Services
- Solutions for the Biomass Economy

**PRINCIPLE 5: REDUCE THE ENVIRONMENTAL IMPACT OF OUR BUSINESS**

At Equity we are actively working to reduce both the direct environmental impact of our business, and the indirect impacts associated with our customers and suppliers. Specific initiatives are currently in place to reduce environmental impacts associated with CO<sub>2</sub> emissions, electricity use, fuel use, transport, paper use, and recycling of: paper, plastic, mobile phones, computer parts, toners and cartridges. In addition, since 2007 we have produced an annual carbon-footprint report with emissions calculated using the Greenhouse Gas Protocol methodology and based on the conversion factors published by Department for Environment, Food and Rural Affairs (DEFRA). Following this, a 12 month plan is drawn up to improve our environmental performance going forward. As part of this we have evaluated the use of both green energy sources and energy reduction projects and we are also actively promoting initiatives such as waste recycling and a cycle to work scheme.

**ENCOURAGE OUR SUPPLIERS TO IMPROVE THE SUSTAINABILITY OF THEIR PRODUCTS AND SERVICES**

In considering IAG's climate impacts, the indirect impacts of our suppliers cannot be ignored. When choosing supplier partners we specifically look beyond the basic purchasing principles of price, quality and service to identify suppliers who can demonstrate that they control and reduce the environmental effects of their manufacturing processes, packaging and transport. We also ensure that all of our suppliers are aware of our environmental policy and comply with its requirements. We specifically monitor their performance to ensure that the goods and services provided meet our objectives in the following areas:

- Identification and management of environmental risks
- Energy conservation
- Waste management
- Use of sustainable raw materials,
- Mileage reduction

**MEASURE AND SEEK TO REDUCE THE ENVIRONMENTAL IMPACT OF THE INTERNAL OPERATIONS AND PHYSICAL ASSETS UNDER OUR CONTROL**

At Equity we are focussing on the Climate Change impact of our internal operations and assets under our control. For the last two years we have been monitoring our Greenhouse Gas emissions (as highlighted in our annual Carbon Footprint Reports) and are looking to reduce the key impacts areas of:

- Electricity, gas and heating oil use
- Air and Rail travel as well as fuel used on other business travel
- Paper use

These areas are being monitored and reported each year. In this way we can set targets to measure and improve our environmental performance. Each year new recommendations on carbon reductions are being prepared and systematically implemented. For instance, to

reduce the environmental impact of business travel we are encouraging our employees to avoid unnecessary journeys; choose the most environmentally-friendly types of transport (e.g. public transport, not by car); or use alternative solutions such as video, web and teleconferencing.

Equity main offices have also implemented recycling schemes to reduce the amount of waste generated. The program includes recycling paper and plastic cups from vending machines, as well as mobile phones, computer parts, toners, and cartridges.

**DISCLOSE OUR DIRECT EMISSIONS OF GREENHOUSE GASSES USING A GLOBALLY RECOGNISED STANDARD.**

For the last 2 years Equity (through IAG UK) has produced an annual report about the Group's carbon footprint. This primarily covers energy use (from electricity and heating purposes), business travel (air and rail journeys as well as by car) and paper use. The carbon emissions are calculated using Greenhouse Gas Protocol methodology and conversion factors published by DEFRA. Carbon emissions are considered the most significant indicators of our overall environmental performance, whilst the report also highlights our efforts to help combat climate change.

**ENGAGE OUR EMPLOYEES ON OUR COMMITMENT TO ADDRESS CLIMATE CHANGE, HELPING THEM TO PLAY THEIR ROLE IN MEETING THIS COMMITMENT IN THE WORKPLACE AND ENCOURAGE THEM TO MAKE CLIMATE-INFORMED CHOICES OUTSIDE WORK.**

As a part of the IAG Group, IAG UK intends to be carbon neutral by 2012. The calculation of carbon emissions will help us set targets, implement a reductions programme and finally offset any residual carbon emissions in an appropriate manner. We will then concentrate on the operations of our suppliers and we will carry on trying to change behaviours of our customers as adaptation to climate change is necessary. Examples of employee engagement include the recently implemented 'Cycle to Work' scheme. Moreover, we are constantly encouraging our staff to save natural resources, like paper, by avoiding unnecessary printing, or double sided / two page printing. We also remind our employees to remember about turning off computers and all the lights when not needed.

**PRINCIPLE 6: REPORT AND BE ACCOUNTABLE**

As outlined above, at Equity we now undertake a carbon footprinting exercise on an annual basis. The results of this, along with other key sustainability indicators are included within IAG's annual sustainability reporting

**RECOGNISE AT COMPANY BOARD LEVEL THAT CLIMATE RISK HAS SIGNIFICANT SOCIAL AND ECONOMIC IMPACTS AND INCORPORATE IT INTO BUSINESS STRATEGY AND PLANNING**

At Equity, we take our lead on this issue from IAG, our parent company, which includes climate risk in all levels of management. At the top, each executive is responsible to ensure that safety, environmental and community issues are considered, resourced and managed throughout their operations and for the benefit of our employees and customers. On lower level of management, our managers are expected to lead by example. As part of this we are trying to help employees manage and monitor their environmental performance as well as social and economic dimensions, including reporting of our environmental impacts at a cost centre level. In this way managers are able to account for and improve environmental performance, and track the financial benefits of doing so.

**PUBLISH A STATEMENT AS PART OF OUR ANNUAL REPORTING DETAILING THE ACTIONS THAT HAVE BEEN TAKEN ON THESE PRINCIPALS.**

Equity is committed to sharing knowledge and experience on sustainability. This statement documents what actions we have been taking on the ClimateWise principles.