

## ClimateWise Annual Report 2008

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 2008 to address the ClimateWise principles.

## Introduction

When the Government published its 'UK Climate Projections' in June this year the Environment Secretary, Hilary Benn, said: "There is no doubt about it, climate change is the biggest challenge facing the world today."

So although ClimateWise is still in its infancy, it is clear that the insurance industry's commitment to reducing our impact on the environment is more important than ever.

2008 was a very difficult year for both RBS and the financial services sector more generally. As a group we posted our largest ever trading loss and had to obtain the support of the UK Government to ensure we could continue in business. As our Chairman, Sir Philip Hampton has said in the Group's recently published Sustainability Report: "We are immensely grateful for this [government support] and recognise it is a privilege to be able to restructure our business with such support behind us".

Within the Group, RBS Insurance remained profitable. Although we were on the market for most of the year, our new Chief Executive, Stephen Hester, decided to keep the business within the Group which reflected the strength of our franchise as the leading UK personal lines insurer.

So we present our 2008 ClimateWise report in a very different and more challenging context than last year. As a result we are pleased that we have been able to maintain a level of stability in terms of our reporting against the principles for 2008. Our steady embedding of the principles provides us with a strong platform from which expand and develop their reach within the business in the coming years.

Our internal ClimateWise Working Group continues to operate with representatives from across the business and our report is signed off by Chris Sullivan, our Chief Executive.

Achievements from this year's report to highlight include:

- working with the ABI to help secure a renewed agreement on the Statement of Principles;
- improving our data quality and modelling capabilities through our new external flood data tool called 'Addressology';
- continuing to conduct tough supplier reviews against our Ethical Code – 25 this year;
- engaging our people through involvement in worldwide events such as Earth Hour and UN World Environment Day.

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

**Andrew Friel**  
**Head of Public Affairs**  
**RBS Insurance**

## 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. So we are still financially supporting and supplying data for a long-term 3 year research project being run by Dr Andrew Black of Dundee University, entitled the "Dundee Tables". As reported last year, the project measures the precise impact of a major flood in terms of damage to individual properties and the cost to insurers at individual risk level. The data produced will assist us and others in the monitoring of actual flood losses, the accurate prediction of costs when modelling potential flood losses and the setting of more realistic premiums.

Following the summer floods of 2007, RBS Insurance actively supported 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. This will support more accurate forecasting.

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

Our internal data is constantly analysed and reviewed in order to improve our assessment of risk. This year, for example, we have purchased an external flood data source called 'Addressology'. This piece of technology provides a fully up to date contoured map of the country that allows us to model down to individual building level. It significantly improves our understanding and modelling capabilities.

Our ability will be further enhanced by the acquisition of several additional flood data files (e.g. on historical data) from the Environment Agency. The new data will enable us to more accurately model our exposure to future events and take appropriate steps to meet the challenge presented by climate change.

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

The results from the Dundee Tables research are published, which are of general interest to the market and scientists. The next data set will be available in 2010.

## 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. For example, last summer the Group hosted the UK Low Carbon Economy Summit with the Government.

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.

We have also maintained a close interest in the ongoing development of flooding policy. We have refined the policy recommendations we made to the Pitt Review in preparation for the publication of the draft Flood and Water Management Bill. Currently a project team is working on our response to the consultation on the Bill. We are also working closely with the ABI on their response. In addition we will seek to influence the content of the Bill once it is introduced to Parliament and have plans to brief relevant MPs and other stakeholders once the consultation is completed and the legislative process begins.

We continued our ongoing work with policymakers by responding to, for example, Defra's consultation on flooding and coastal erosion risk management.

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

Following the publication of our first ClimateWise report, we briefed a number of MPs on the main elements of the report. Our Chief Executive, Chris Sullivan also attended the launch of the ClimateWise one year review with HRH Prince Charles.

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**

The RBS Group was a signatory of the recent Poznan Communiqué calling for a co-ordinated global agreement on greenhouse gas emission reduction. We also support the UK government's emission reduction targets as outlined in the 2008 Climate Change Act and we support the development of the Carbon Reduction Commitment legislation.

During 2008 we continued to implement our commitments under the Clinton Climate Initiative by working to develop financing mechanisms for energy efficiency schemes in the UK. We maintain our close involvement with the UN Global Compact and continue to be highly rated in the main indices that measure environmental and social performance – the Carbon Disclosure Project, the Dow Jones Sustainability Index, and the FTSE4Good Index.

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

There has been no major climate-related disaster where we have been involved in the past year.

However, as our response to the 2007 floods demonstrated we are always prepared to take speedy action. In the event of a disaster, 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.

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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.**

Through Direct Line we provide customers with an online carbon offset calculator so they can calculate their personal impact on the environment. Through Direct Line and other brands, such as Churchill, we provide wide-ranging advice and tips on how to reduce CO2 emissions at home and when driving.

We also include 'please recycle' logos on our direct marketing 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.**

Direct Line continues to offer our customers the option of offsetting their motoring, travel and household carbon emissions by purchasing fully certified carbon offset credits that generate emission reductions through projects such as renewable energy schemes in Brazil and the planting of sustainable timber in Mexico.

Through our main branded websites we provide information and advice to customers on how to manage their CO2 emissions through making small incremental changes to their everyday behaviour. For example, on the Direct Line website the 'People like me' section contains illustrative case studies for customers about to buy one of our products. These give customers an idea of 'average' CO2 emissions and are designed to encourage people to use our carbon calculator to check their own.

On the Churchill website we provide simple tips on green driving to help customers understand, among other things, the impact of under-inflated tyres or removing unnecessary weight from the car. There are also links to the Government's green list for cars and information on less environmentally harmful fuels.

#### **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.

In 2007, we set an ARC target to recycle at least 80% of all recyclable ARC waste, which continues to be our target. As reported last year we work in partnership with Specialist Waste Recycling (SWR). This year we recycled 1,554 tonnes of waste material across our 16 ARC sites, which was 71% of our total recyclable waste - slightly below our target. This decrease in recycled percentage from last year has come from a refinement in the calculation process to ensure we are more accurately measuring recycled waste by site as a total percentage of the total possible recyclable waste. Only by knowing the full opportunity can we maximise our recyclable amount. However, we are continuing to work very closely with SWR to improve the recycling processes we have in place to help reach our target. This will add to the effectiveness of our reporting in what is a new process for us that is still settling down.

In addition we have started the rollout of the SWR relationship to our network of 200 preferred bodyshop repairers throughout the UK. This is still in its early phases, but we have seen strong levels of interest, which will further increase the total amount of repair waste recycled by RBS Insurance.

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

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In early 2009, RBS sent representatives to a ClimateWise investment event to specifically evaluate how climate change could be incorporated into its investment strategies. We have subsequently agreed to incorporate frequent consideration of climate change at our internal RBS Insurance Funds Management Committee (FMC).

The Committee meets monthly to discuss investment performance and strategy. By incorporating the discussion in the FMC forum at regular intervals, it will ensure that the principle becomes an inherent part of the RBS Insurance investment strategy.

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

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##### **Encourage our suppliers to improve the sustainability of their products and services.**

In 2008 RBS Insurance conducted twenty five supplier reviews against the Group's 'Ethical Code for Suppliers'. Launched in 2004, the Code helps to ensure that we only work with environmentally and socially responsible suppliers.

The reviews identified that many of our largest suppliers have robust targets in place and their environmental performance is improving as a result. We have therefore widened our remit to ensure that our smaller suppliers are included in these reviews. To date in 2009 we have conducted fourteen supplier reviews. We have also introduced due diligence audits which ensure that we are aware and are comfortable with any potential supplier's environmental and social policies prior to signing any agreement with them.

We are also creating a Green Supplier Alliance with our key supply chain, service providers and contractors in UK, US and Ireland. This will provide a forum for sharing best practice and running trials and pilots. It will help ensure that we continue to actively minimise the direct and indirect footprint of the Group's operations.

**Measure and seek to reduce the environmental impact of the internal operations and physical assets under our control.**

One of the biggest challenges to measuring RBS's environmental performance in 2008 was the ongoing integration of ABN AMRO. This integration exercise has significantly changed the size of our overall footprint. To address this, we are developing a new system for capturing our environmental data that will be completed in 2009.

We now procure 92.2% of our electricity in the UK and Ireland from renewable sources. In addition, we completed a programme of environmental upgrades to a number of buildings in 2008, including the installation of heat reclamation systems, high efficiency boilers, intelligent lighting systems and automatic metering to improve efficiency.

**Disclose our direct emissions of greenhouse gases using a globally recognised standard.**

Our greenhouse gas emissions are measured and reported using the Greenhouse Gas Protocol standard developed by the World Resources Institute and World Business Council for Sustainable Development.

The key environmental data attributed to RBS Insurance are included in the Group's environmental reporting, which is published annually in the annual Sustainability Report (previously the Corporate Responsibility Report). This report, and the environmental information within it, is audited by Deloitte. In compiling our Sustainability Report we have sought to cover the principles of the UN Global Compact and have written it in accordance with the AA 1000 AccountAbility Principles Standards (AA 1000 APS) which is a principles-based framework for reporting sustainability performance.

**Engage our employees on our commitment to address climate change, helping them to play their role in meeting this commitment in the workplace and encouraging them to make climate-informed choices outside work.**

In developing a new system for capturing our environmental data we are rolling out an Environment Champions Programme. This is an initiative open to all staff that will create a network of environmental volunteers to work with staff around the company. They will drive campaigns and events in our offices and across all buildings and lead by example to encourage other employees to reduce our environmental impact.

'YourWorld' continues as our online platform that allows employees to measure their own carbon footprint and offers advice on how they can reduce it. The key message from YourWorld is that if we take a large number of small steps together then we (as a company and as individuals) will make a big difference. Over the course of 2009 we will be replacing YourWorld with a new, more interactive sustainability portal for staff covering a broader range of environmental as well as social and community issues.

To encourage employee engagement we have also taken part in initiatives such as 'Earth Hour' introduced by the World Wildlife Fund in 2007 and the UN World Environment Day which included a 'Switch-off' campaign and a 'No Print Day'.

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

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**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 internal ClimateWise Working Group also reports into the Chief Executive.

**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.

23 June 2009