

# ClimateWise principles report 2014

## Introduction – Background of Aviva's business

Aviva provides insurance, savings and investment products to 31.4 million customers worldwide. We are the UK's largest insurer with over 12.9 million customers and one of Europe's leading providers of life and general insurance with another 12.9 m customers. We are a multinational composite insurer combining strong life insurance, general insurance and asset management businesses under one powerful brand.

We are committed to serving our customers well in order to build a stronger, sustainable business, which makes a positive contribution to society, and for which our people are proud to work. Long term insurance and savings business from continuing operations accounted for 74% of our total business, based on worldwide sales for the year ending December 2013. General insurance and health insurance together accounted for 26% of our total worldwide sales for year ended December 2013. We are ranked as one of the UK's top ten most valuable brands and Aviva Plc is in the top 10% of socially responsible companies globally in the Dow Jones Sustainability World Index. We are classed as a systemically important insurer, due to our interconnectivity with others, as well as non-traditional insurances.

## The revised ClimateWise Principles:

### Principle 1 – Lead in risk analysis

1. Support and undertake research on climate change to inform our business strategies and help to protect our customers' and other stakeholders' interests. Where appropriate share this research with scientists, society, business, governments and NGOs in order to advance a common interest.
  - a) The issue of stranded assets is an emerging area of research for Aviva Investors. Last year, they and others commissioned research by [University of Oxford Smith School of Enterprise and the Environment](#).
  - b) As part of this relationship we hosted an event with Smith School on 8<sup>th</sup> October 2013 '**Fossil fuel divestment and what it could mean for companies and investors**'.
  - c) The issue of stranded assets and our response as an investor and asset owner was a question that was posed by one of our individual shareholders at our AGM at the end of April. The question was answered at that point in time. However, the issue has now been tabled as a paper on the agenda items for the next Aviva Board Governance Committee.
  - d) Building on our previous advocacy work with UNCTAD around the [Sustainable Stock Exchanges](#) work and the Corporate Sustainability Reporting Coalition (CSRC), in June 2014 Aviva Investors launched a White paper – A [Roadmap for Sustainable Capital Markets](#) which provides some recommendations on how policy makers could move capital markets onto a more sustainable basis.
  - e) In the run up to the launch, Aviva Investors' hosted an event at the [Royal Society](#) to bring together stakeholders from the sector, regulators, civil society and policy makers to discuss the approach and establish a common consistent messaging that parties could endorse.

- f) Our CEO states in the foreword of the report “Left unchecked, climate change and other issues arising from unsustainable development would affect actuarial assumptions underpinning insurance products that our industry provides, potentially rendering significant proportions of the economy uninsurable and shrinking our addressable market.” An article about it appeared in the [Guardian newspaper](#).
2. Support national and regional forecasting of future weather and catastrophe patterns affected by changes in the earth’s climate.
- a) Over the past several years, changing weather patterns and climatic conditions have added to the unpredictability and frequency of natural disasters in certain parts of the world and created additional uncertainty as to future trends and exposure. Extreme weather events pose a serious risk to our business, with the potential for fluctuations in claims and challenges to risk pricing. We use catastrophe models to help inform our capital requirements. These models are generated from a number of data sources including climate models. More details of the current reserves we hold in respect of our largest exposure can be found in our [Annual Report and Accounts 2013 \(PDF 11.1 MB\)](#) , General Insurance Risk section.
  - b) We are using our expertise as insurers, such as our knowledge of historical weather events and cutting-edge predictive modelling to map future scenarios, reducing the risk to our business and our customers. Despite Canada suffering two 1:100 years weather events within two months of each other in 2013, Aviva Canada remained profitable due to our effective risk management approach. “But going forward, one of two things needs to happen,” Wayne Ross, vice president of national property claims, commented. “Either building in flood-prone areas needs to stop or steps to increase the municipality's infrastructure and ability to deal with larger amounts of water.”
  - c) Aviva Canada continues to work on a number of the recommendations of the report which resulted from the [ClimateWise City Resilience workstream](#).
3. Use research and improve data quality to inform levels of pricing, capital and reserves to match changing risks.

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As mentioned in previous responses we use digital flood mapping which can pinpoint the flood risk applicable to a property level for coastal, fluvial and pluvial flood risk. This data is one of 30 factors that go to make up the overall pricing of property insurance. Going forward we will be reminding our customers of the price they paid for their previous term of insurance, in accordance with ABI guidelines.

Aviva’s CEO - Mark Wilson has suggested that [house buyers need flood ratings on all houses](#).

Climate Change has been flagged as an emerging risk for the first time in the 2013

Annual Report and Accounts (page 45). All emerging risks are assessed for their proximity and significance to Aviva via our embedded market and group emerging risk processes. The 'increased incidence of extreme weather events' risk has been assessed as 'less remote' therefore requiring regular analysis. Whilst it not significant over the planning horizon, emerging risks, such as climate change are assess over longer time periods to ensure all risks to both the medium and long term future of the company receive appropriate attention.

4. Evaluate the risks associated with new technologies for tackling climate change so that new insurance products can be considered in parallel with technological developments.

Due to the makeup of our business, particularly on the General Insurance side with a high proportion of in-market insurance provision and personal lines business, our focus is not on insurance products for new technologies such as CCS for example. In 2011, we created a new endorsement covering the provision of Environment Goods and Services. Details of this can be found in our previous responses.

"The insurance industry has said it will invest £25bn in infrastructure projects over the next five years as part of the Government's growth action plan and Aviva last year committed £500m of this, ready to invest today. "

"However, currently there is no mechanism for insurers to invest in flood defences. And we have a responsibility to our customers, including savers and pensioners, to invest the money they have entrusted with us responsibly where it will achieve adequate returns." [Mark Wilson opinion piece - The Telegraph](#)

## Principle 2 – Inform public policy making

- a) Work with policy makers nationally and internationally to help them develop and maintain an economy that is resilient to climate risk. This should include supporting the implementation of emissions reductions targets and where applicable supporting Government action that seeks to enhance the resilience and reduce the environmental impact of infrastructure and communities.
  - a. Aviva Investors have continued their call for [corporate reporting of non-financial issues](#) such as climate risk the call that they made at the Rio+20 Summit in 2012. The call was made so that investors can better understand the long term focus of corporate and so make better long term investment decisions.
  - b. (And c) In April the [EU took a further legislative step](#) when European politicians ruled that thousands of firms must reveal their performance as corporate citizens, considering environmental, social and governance issues in their public reporting. [Aviva Investors were one of the Investors which pushed for](#) and subsequently welcomed the EU focus on this issue.

- d. Aviva and Aviva Investors needs a stable public policy framework on climate change so that we can assist our customers to manage climate risk, and invest for the long term in supporting a low carbon economy.
  - e. At the end of 2013 Aviva signed a [letter from WWF](#) calling for the UK Government to agree the fourth carbon budget. Steve Waygood – Chief Investment Officer, Aviva Investors said, “As insurers and investors, we are quite accustomed to dealing with financial arguments that point towards the benefits of taking preventative and mitigating action before a much more expensive disaster unfolds. We believe that the implied changes to the global economic system associated with a 5-6 degree change to average global temperatures present such a crisis. The long term absolute value of the assets that we run will be significantly influenced by the value of the global economy. A clear and credible decarbonisation target would help address the climate problem before the economic disasters associated with a 5-6 degree change unfold.”
- b) Promote and actively engage in public debate on climate change and the need for action.

At a recent UN Principles of Sustainable Insurance event that Aviva hosted, Aviva’s CEO Mark Wilson spoke about the importance of this issue to Aviva’s business.

He said, “In my view, climate change is arguably the world’s most significant contemporary market failure. Some of the worst case scenarios coming out of the International Panel on Climate Change are deeply concerning with potentially profound implications on the valuation of the companies listed around the world.”

“Left unchecked, climate change and other issues arising from unsustainable development would affect the actuarial assumptions underpinning the insurance products that our industry provides, potentially rendering significant proportions of the economy uninsurable and shrinking our addressable market.”

“It should be clear by now that I personally consider sustainable development issues to present both strategic risks and opportunities to Aviva.”

In February we signed the [Aldersgate flood letter](#) that appeared in the [Financial Times](#).

[The Telegraph](#) published an opinion piece by Aviva’s Group CEO Mark Wilson following the UK floods in February this year, in which is called for a

collaborative approach, a mechanism by which insurers could invest in flood defences, and that flood plains should not be built on without flood defences. He also reinforced the message that we are clear on the task at hand and we will continue to step up for our customers.

Aviva re-signed the [Geneva Association](#) on Climate change in May 2014.

Over the year Aviva has submitted written evidence and appeared before the [UK Parliamentary Environmental Audit Committee](#) on climate risk.

An example of how our advocacy work, in the creation of Carbon Action, has had an impact can be found in the case study on page 39 of [A Roadmap for Sustainable Capital Markets](#).

### **Principle 3 – Support climate awareness amongst our customers**

1. Inform our customers of climate risk and provide support and tools so that they can assess their own levels of risk.
  - a) During the [winter floods](#) Aviva provided information to customer on how to minimise loss and damage, through press release and,
  - b) - emailed over 2,000 customers in the Thames area giving them advice on what to do in the event of a flood and how they can contact us in the event of a claim.
  - c) We were also able to fulfil our purpose, when we were contacted by a building society, through which we provide cover to end customers. From the list of addresses they gave us which we ran through our GIS system, we were able to advise that none of those properties were at risk from that particular weather event, another aspect of providing certainty at an uncertain time.
  
2. Encourage our customers to adapt to climate change and reduce their greenhouse gas emissions through insurance products and services.
  - a) In Aviva Canada, further to the endorsements that we made available to household customers in respect of coverage for domestic Solar PV and wind. We launched a new policy endorsement available to all [household insurance](#) which, on reinstatement upgrades the damaged items from new for old to the most energy efficient. For example, replacing a broken double-glazed window with a tripled-glazed argon-gas filled unit, improving insulation and therefore reducing future household emissions.
  - b) We researched the potential take-up of this endorse prior to launch, but for obvious commercial reasons our research will not be published.
  - c) The non-life areas of the Aviva businesses are approaching incorporating products and services that encourage adaptation to climate change in various ways. Green products are popular in France and Canada, but there is little demand in the UK business and therefore we are mainstreaming adaptation to climate through our

sustainable claims work (see section 3.3). In the UK we have also worked with [My Ice](#), who have assessed our environmental performance and have listed us as a company 'doing our best for the environment'.

3. Seek to increase the proportion of non-life claims that are settled in a sustainable manner.

Building on the work we have done in previous year on repair over replace in respect of our motor accident repairs, we have continued to work on the challenge of making our claims processes more sustainable. Last year we turned our attention to [household claims](#) on innovations that improve customer satisfaction, manage cost and reduce environmental impacts of the processes employed. We have worked closely with our suppliers, including training in our call centres so that we can ask the most appropriate questions of our customers when they notify us of a new claim. Giving one example: in our carpet restoration process, the level of successful cleaning of carpets increased from 15% to 85%. We are seeking further ways to measure the reduced carbon impact, and improve on the number of overall claims settled in a more sustainable manner.

4. Through our products and services assist markets with low insurance penetration to understand and respond to climate change.

Aviva's presence in the markets with low insurance penetration is in respect of Life business lines. (Please see the background of Aviva's business at the beginning of this response). The collaboration that Aviva France began last year with the Red Cross continued throughout the year focusing on building resilience in [customers and communities](#).

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

1. Evaluate the implications of climate change for investment performance and shareholder value.
  - a) We aim to invest in a responsible and sustainable way, encouraging transparency, more sustainable business practices and good governance in the companies we invest in. This benefits our customers, by identifying and reducing environmental, social and governance (ESG) risks in our holdings, and in many cases benefits society and the broader economy by promoting more sustainable companies. One example of this is the stranded assets research work mentioned in Sub-principle 1.1
  - b) Our environmental, social and governance [voting and engagement](#) work has continued and strengthened over the year. We publish our [voting effectiveness](#) on an annual basis, but also on an individual company voting results three months after the each AGM. In 2013 we've seen improvements in Corporate Responsibility disclosure and performance in 32 companies we invest in, as

measured by strengthened support at their AGMs (e.g. votes against becoming votes in favour or abstentions).

- c) From 2012 onwards Aviva Investors started to include environmental, social and governance considerations (ESG) in all mainstream investment decisions. By the end of 2013 80% assets under management have tailored responsible investment policies. We have a target to reach 100% by 2015.

## 2. Incorporate the material outcomes of climate risk evaluations into investment decision making

At Aviva Investors, we believe that fiduciary duty requires that when we are made aware of an issue we must act and in a manner that is in the best interests of our clients.

Clearly, climate change is one such issue. Failing to acknowledge, address and mitigate the significant economic risks raised by climate change means a failure to meet our fiduciary duty. As such, investment managers should be required to act in order to mitigate the consequences of climate change.

We incorporate all the research and climate risk evaluation into investment decision making. One such developing funding tool is environmental bonds.

The development of green bonds as a legitimate funding tool to attract significant mainstream investment in climate change initiatives is extremely welcome.

From the perspective of a mainstream fund manager it is important to recognise the important role that green bond standardisation could play. For the sake of the green bond market, the move towards green bond standards is very clearly a positive step.

No longer is there a requirement to pitch funding ideas solely to niche SRI funds which is a relatively shallow pool of capital and insufficient to meet the investment now required to arrest the pace of climate change.

Most analysts and fund managers in the bond market do not have the time, skills or motivation to determine environmental impact. As such, if they were required to make the determination, they would likely evade the task and ultimately defer investment purely on this basis.

Industry recognised standards being in place would remove a very important limiting factor on mainstream bond investment.

The mainstream bond market has the size and demand to meet a significant proportion of the funding required. As such, institutions such as Aviva Investors stand willing and able to fund these initiatives, so long as we do so in a more reliable policy environment.

3. Communicate our investment beliefs and strategy on climate change to clients and beneficiaries.

Over the past year there have been seven consumer activist campaigns centering on climate change related issues in our pension offerings, with particular focus on the governance, influence, transparency, and communication of our investment processes. Over 350 emails have been sent to Mark Wilson, with other enquiries coming through the Investor Centre of Aviva Life. However, we have progressed from responding to creating dialogue.

Following their 'Green Light' Campaign last October and our resulting positive response to customers, ShareAction suggested the possibility of setting up a meeting between a number of customers and ourselves to discuss individual concerns about how their pensions with us were invested, in respect of accountability and transparency, stewardship and corporate engagement, externally managed funds, influencing the sector and the integration of CR into investment decisions. We met with ShareAction and 7 customers in June.

The takeaway statements from our customers at the meeting were:-

“I want my pension to create the kind of world I wish to retire into”

“As a young person concerned about the climate, I’m questioning whether I should save for a pension at all given the potential impact on value climate risk will have, at the same time being worried that I am putting less into my pension than I think I should”.

The discussion was extremely positive and constructive and a great opportunity for us to understand the views of the end customers. We will seek opportunities to build on the outcomes of the meeting and arrange further conversations. Here is the [blog that ShareAction](#) published as a result of the meeting.

#### **Principle 5 – Reduce the environmental impact of our business**

1. Engage with our supply chain to work collaboratively to improve the sustainability of their products and services.
  - a) As part of the procurement (direct purchasing) and supply chain (procurement on behalf of our customers through the claims) processes, we have an [Aviva-wide Supplier Code of Behaviour](#), a standard corporate responsibility question set and a publicly reported KPI around the demonstration of the consideration of ESG issues throughout the supplier relationship management process.
  - b) We continue to work with our suppliers to assess the sustainability and minimise the impact of the products and services we buy. Our

Travel Management companies have assisted us in implementing and reminding employees about the availability of 'tech over travel' communication facilities and no travel weeks.

- c) Building on the work done previous in the motor accident repairs process, over the last year or so we focused our work with suppliers on the domestic claims area. Beginning with how we can make the process better for the customer we have been able to identify how we can make the claims process more sustainable. Please see [the examples given in sub-principle 3.3.](#)

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

- a) We disclose the key environmental impacts of our business operations through the use of the [Accounting for Sustainability framework](#) and in detail through the ['how we are performing'](#) section of the Corporate Responsibility section of the website.
- b) Our progress against our Environmental KPIs can be seen on the KPI table in 'Our wider impact' report.
- c) We have made progress in the quality of our environmental impact reporting, this is acknowledged by our independent Third Party Assurance providers.

We have also worked with our carbon offset providers ClimateCare to better understand the [value of the community impact](#) of the projects that we purchase carbon credits from.

"Aviva's focus on robust measurement enabled it to realise the value of using its carbon offset budget to support projects that also deliver measurable benefit to local communities. This approach has allowed them to improve a staggering 395,000 people's lives so far, at the same time as offsetting their carbon emissions. I'm particularly pleased that they are not keeping this knowledge to themselves, but working with ClimateCare – which this year won a Queen's Award for Sustainable Development for its integrated approach to tackling climate and development challenges – it is actively sharing this knowledge, making it made it possible for others to assess the social impact of their carbon offset programmes for the first time. This new information will help businesses make the case for investing in these integrated projects and as a result will benefit millions of people around the world - that's what makes this a game changer." says Jonathon Porritt, Founder, Forum for the Future.

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

We publish annual Group performance data for CO<sub>2</sub>e emissions, waste and water consumption. Our carbon footprint boundaries identify the scope of the data we monitor and the emissions we offset. We also use Accounting for Sustainability's connected reporting framework.

**Aviva plc – Global greenhouse gas emissions data from 1 January 2013 to 31 December 2013**

Tonnes CO <sub>2</sub> e	2013	2012	2011
<b>Scope 1</b>	21,787	23,849	44,471
<b>Scope 2</b>	56,842	75,733	97,988
<b>Scope 3</b>	37,260	26,920	22,655
<b>Absolute CO<sub>2</sub> footprint</b>	115,889*	126,502*	165,115
<b>CO<sub>2</sub>e tonnes per employee</b>	3.1	2.9	4.6
<b>CO<sub>2</sub>e tonnes per £m GWP</b>	5.26	5.56	6.28
<b>Carbon offsetting **</b>	(115,889)	(132,827)	(173,371)
<b>Total net emissions</b>	0	(6,325)	(8,256)

Scope 1 – operational emissions from owned sources e.g. gas, vehicle fleet as part of product/service.

Scope 2 – operational emission from non-owned sources e.g. electricity.

Scope 3 – business activity emissions from non-owned sources – e.g. business travel.

\*Limited assurance provided by PricewaterhouseCoopers LLP.

\*\* Carbon offsetting through the acquisition and surrender of emissions units on the voluntary market.

We report on all of the Greenhouse Gas (GHG) emission sources on a carbon dioxide emissions equivalents (CO<sub>2</sub>e) required under the Companies Act 2006 (Strategic Report and Directors' Reports) 2013 Regulations, which are material to our business operations. We report our emissions using the operational control approach as defined by our organisational boundary. We do not have responsibility for any emission sources that are not included in our business operations or included in our carbon footing boundaries. Our reporting follows the GHG Protocol Corporate Accounting and Reporting Standard, and emission factors from UK Government's GHG Conversion Factors for Company Reporting 2013.

We have used the two most appropriate intensity measures to our business CO<sub>2</sub>e per employee and CO<sub>2</sub>e per £ million GWP which are expressed in the

table above. Aviva also reports on our Scope 3 emissions which go beyond the requirements of the 2013 Regulations.

We purchase 48% of our electricity from renewable sources round the world. However, the UK Government conversion factors require that the CO<sub>2</sub>e element of UK renewable electricity should be reported as grid average. For our unavoidable remaining carbon emissions we offset these to the value of 100% through the acquisition and surrender of emission units on the voluntary carbon market (VERs).

4. 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.
  - a) Tying in with ClimateWeek this year we launched **Empower** in conjunction with the Carbon Trust - a virtual office environment which allows employees to learn more about Aviva's environmental impacts, look at ways to help reduce them and tells us what they do or don't already do. The tool is a one stop shop for information, tips and resources to enable 'greening' behaviour at work.
  - b) The online system is accessible by all our UK employees all year round. We also provide information through our intranet in respect of UN Days such as World Environment Day, World Water Day, WWF Earth Hour etc. and how we internally are responded to the issue raised on those days. We also try to use social media to raise awareness of the issues and our response.
  - c) We can evidence employee engagement on climate change and environment impacts through mechanisms like our employee satisfaction survey. In our last annual survey which took place last September the % of employees who feel that Aviva is and environmentally responsible organisation reached 77% on a groupwide basis. This is up from 76% in 2012 and 71% in 2011. AR&A 2013 page 280.

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

1. Ensure that the organisation is working to incorporate the Principles into business strategy and planning by encouraging the inclusion of the social and economic impacts of climate risk as part of the Board agenda.

Overall responsibility for Aviva's corporate responsibility lies with Aviva's Group Chief Executive and the Aviva plc board. The [Governance Committee](#) (page 80) has evolved from the Corporate Responsibility Committee during the year and revised terms of reference were adopted in December 2013 to reflect its expanded remit. The key responsibilities of the committee are to:

- take a leadership role in shaping the corporate governance principles, culture and ethical values of the Group in line with the Group's strategic priorities
- oversee the brand and reputation of the Group
- ensure that reputational risk is consistent with the risk appetite approved by the Board and the creation of long term shareholder value
- oversee the Group's conduct with customers, including the regulatory requirements relating to treating customers fairly and offering of products and services that are fit for purpose and meet customer needs
- oversee the Group's conduct in relation to its corporate and societal obligations, including setting the guidance, direction and policies for the Group's customer and corporate responsibility (CR) agenda and related activities and advising the Board and management on these matters

CR accounted for 20% of the committee's time.

With climate change being highlighted as an emerging risk in the 2013 Annual Report & Accounts, the Board Risk Committee will review, manage and monitor the risk as it may impact our ability to write profitable new business over the longer term. All emerging risks are assessed for their proximity and significance to Aviva via our embedded market and group emerging risks processes. The "Increased incidence of extreme weather events" risk has been assessed as 'less remote' therefore requiring regular analysis and its potential impact is considered significant at an Aviva level, though not over the current planning horizon. Emerging risks are assessed over longer time periods than the current business plan to ensure all risks to both the medium and long term future of the company receive appropriate attention.

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

This document constitutes Aviva's 2013 response to the ClimateWise Principles and is the basis of our actions taken in continuing to address the issue of climate risk/climate change. The document is published on Aviva's website. Similar information is available in [Aviva's Annual Report & Accounts, Our Wider Impacts Report](#) as well as information on the [Corporate Responsibility section of our website](#)

However this report provides the level of detail which cannot realistically be included in other public reports that seek to cover a wider scope of information. [This response](#) is publicly available on our website with our previous year's responses.