



## Focus on Climate Change

### Our objectives

- Encourage adoption of clear, long-term government policies to shift to low-carbon economy
- Encourage all companies with substantial greenhouse gas (GHG) emissions to measure and minimise them, and publicly report on their strategy to manage the risks to their business posed by climate change.

### Engagement by F&C

#### Breaking the deadlock

Despite overwhelming scientific agreement regarding the threat posed by climate change, governments have so far been unable to deliver an effective global policy response. In this vacuum, business reaction has ranged from disengaged, to increasingly vocal on both sides of the argument. On the one hand, **BP, Shell, Goldman Sachs** and others have led high-profile efforts to raise public awareness, while more and more companies, like **General Electric, Sun Microsystems** and **Johnson Matthey**, are boosting investment in innovative technologies. But on the other, television advertising in the US financed by **ExxonMobil, GM, Ford** and others has strived to reassure the public that there is no cause for alarm, and that worries about melting glaciers and rising sea levels are overblown. Amidst the polemics, spiralling oil prices and worries about energy security have helped business focus on where it can most easily begin to tackle climate change: improving energy efficiency.

#### They said...

**“ Carbon dioxide: They call it pollution. We call it life ”**

Television advertising campaign aired in 14 cities in the United States, 18-28 May 2006, by the Competitive Enterprise Institute, a think tank supported by ExxonMobil, Ford Motor Company Fund and General Motors Corporation, among others<sup>3</sup>.

Why have governments stalled? With the notable exception of the EU Emissions Trading Scheme, governments have been put off by concerns about costs and competitiveness, and a fear of alienating business. Meanwhile, with no long-term certainty regarding climate policy, business has held off from making the large, high-risk investments needed to shift to a low-carbon economy. In an effort to break this impasse, the *Corporate Leaders Group on Climate Change (CLGCC)*<sup>3</sup>, made up of 14 Chief Executives including F&C's Alain Grisy, met with UK Prime Minister Tony Blair to deliver a series of ambitious recommendations on climate change policy.

### Business leaders ask UK Prime Minister for tougher action on climate

The CLGCC believes strong government intervention is needed to create economic incentives over the long term for investment in innovative low-carbon technologies. It has called for global action to:

- Strengthen markets for emissions reductions
- Support early stage low-carbon technologies
- Scale up low-carbon investment in rapidly developing economies
- Improve energy efficiency in the large commercial sector
- Stimulate consumer action on climate change
- Strengthen product and building regulation
- Reduce the impact of transport on climate change.

#### They said...

**“ As you know, the scientific evidence is showing that human-induced climate change may be happening even faster than expected. It is clear to us that the need for ambitious and long-term action is becoming ever more urgent. ”**

Extract of CLGCC letter to UK Prime Minister Tony Blair, 6 June 2006

### \$1 trillion press US SEC for better climate disclosure

With the US government still in denial on climate change, F&C joined 26 US investment institutions with over \$1 trillion of assets under management in urging Christopher Cox, Chairman of the Securities and Exchange Commission, to improve disclosure of its potential effects on companies' business prospects. As a co-signatory to a letter sent by the Investor Network on Climate Risk (INCR), F&C called for better enforcement of existing disclosure standards, and additional guidance from companies on the materiality of climate risks to their business.

<sup>3</sup> Members of the CLGCC include ABN Amro, Anglian Water Group, BAA, B&Q, F&C Asset Management, John Lewis Partnership, Johnson Matthey, Reckitt Benckiser, Shell, Standard Chartered Bank, Sun Microsystems, Tesco and Vodafone Group. The Group's letter to the UK Prime Minister is available at <http://www.fandc.com/new/aboutus/Default.aspx?id=63816>.  
<sup>4</sup> "Can business be cool?", The Economist, 10 June 2006

### In the eye of the storm: How are insurers dealing with climate change?

As well as engaging the UK government and US regulator, F&C has focused on the embattled insurance industry, as it struggles to come to terms with the impacts of increasingly frequent and severe hurricanes, storms, droughts and floods. Overall economic losses from hurricanes in the North Atlantic have increased dramatically, from \$24 billion between 1999 and 2003, to \$63 billion and \$165 billion in 2004 and 2005, respectively, while the insurance tab reached a record \$83 billion in 2005.

While general insurers have taken the most direct hit, all insurers face the prospect of higher and less predictable payouts, as well as pressure on asset management returns over the long term. F&C has highlighted its concerns in letters to 30 leading insurance companies across Europe, North America and Japan, and asked companies to explain their strategies for addressing climate risk. Key questions included:

- Is there board-level oversight and responsibility for this issue?
- How can underwriting be adjusted to reflect increases in climate-related risk?
- How is climate-risk exposure evaluated in equity investments?
- Do companies offer any products that incentivise reductions in emissions?
- What public policy changes are needed to allow insurance pricing to reflect underlying climate-related risk accurately?

While no insurer can yet claim to have the definitive strategy to cope with climate change, most European companies have established explicit board responsibility for climate change and some are beginning to take account of its impacts in their underwriting policies. **Munich Re** and **Swiss Re**, who have long studied and warned about the changing climate, also provide specialist products such as renewable energy underwriting, and are taking an active stance in public policy discussions.

US insurers have been much slower off the mark, with **American International Group (AIG)** being the first to introduce a climate change policy in May 2006, following long-standing dialogue with F&C and other investors. As well as engaging individual US insurers, F&C is encouraging regulatory action at the state and federal levels to promote the efficient functioning of the insurance market, so that the true cost of climate risk can be priced into policies.

### We said...

“Investor F&C Asset Management believes climate change will pose a challenge to the insurance sector with the prospect of “higher or less predictable payouts”.... Alain Grisay, chief executive at F&C, says that .....“The rising frequency, severity, and most worrying of all, unpredictability of extreme weather events mean that the past is no longer an accurate predictor of the future.”

“Get ready to be blown away”, *Insurance Times*, 8 June 2006

### They said...

“The fact that no one has an accurate picture of the financial impact climate change could have on the industry is a clear indication that more needs to be done. The industry needs to ... take a new approach to underwriting, with pricing and capital allocation models regularly being updated to reflect the latest scientific evidence.”

Lloyd's, from *Climate Change, Adapt or Bust*, quoted in “Lloyd's warns insurers over climate change”, *The Observer*, 11 June 2006

“Mention the words “climate change”, and U.S. insurers usually get very, very quiet. The industry just doesn't think “stochastically,” .... Translation: Insurers don't act on the unprovable or hypothetical. But the effect of climate change on the business world is already a certainty. American insurers, missing in action on the climate change debate, should instead be trying to shape national policy.”

“Waiting for a rainy day”, Editorial, *Houston Chronicle*, 19 June 2006