Insure OUR FUTURE

WHAT IS LLOYD'S OF LONDON AND HOW DOES IT HELP FUEL THE CLIMATE CRISIS?

Lloyd's provides insurance and reinsurance that supports, enables and provides cover for some of the world's worst fossil fuel projects, including coal mines, tar sands pipelines and new oil & gas exploration, which are incompatible with keeping climate change under 1.5°C.

Lloyd's provides a significant portion of the global energy market insurance and is a central part of the wider London insurance market, writing more than half of its total premium. The London Market Group reported that in 2018 the combined London insurance market accounted for 55% of global energy sector insurance premiums and 23% of the City of London's GDP.

Whilst many leading European insurers have in recent years withdrawn from insuring and investing in coal and tar sands, Lloyd's says it will not set an underwriting policy unless there is a legal or regulatory requirement to do so.

Lloyd's has stepped in to insure controversial fossil fuel projects that other insurers have dropped, for example the proposed Adani Carmichael coal mine in Australia. Lloyd's members also provide reinsurance for heavily polluting Polish coal mines, which are an embarrassment to European climate policy. In 2019, Lloyd's renewed its insurance of the Trans Mountain tar sand pipeline and is assumed to do so again in 2020.

Lloyd's have talked about climate for a long time, but as these examples demonstrate, they have so far failed to take meaningful action, and worse Lloyd's insurers are undermining the climate action of others. It's 2020. The climate science is clear. Lloyd's has a responsibility to support international climate targets and align their businesses with the Paris Agreement.

Lloyd's specialist insurers take pride in insuring what noone else will cover, including footballers' legs and actresses eyes, but the question arises whether Lloyd's niche will in the future also include climate destroying fossil fuel projects that no other insurer will touch.

LLOYD'S FOSSIL FUEL INVESTMENTS

Lloyd's and its members have approximately £82bn of assets, the bulk of which are invested. Like most investment funds, fossil fuel companies are likely to represent a significant portion. In April 2018, Lloyd's committed to divest from and screen out investments in companies heavily associated with coal from approximately 75% of its Central Fund. However, this only covers about £2bn of the assets held by Lloyd's market.

To demonstrate commitment to action on climate change, Lloyd's Investment Committee should instruct all investment funds in every tier to divest from all fossil fuel companies.

The Insure Our Future network is demanding that Lloyd's (and its members) must:

- **Stop insuring new coal projects and coal companies**
- **Stop insuring tar sand projects and companies**
- **Stop insuring new oil and gas expansion projects**
- **Phase out existing insurance for oil and gas companies in line with a 1.5°C pathway**
- **Divest from coal, oil and gas companies in line with a 1.5°C pathway**

LLOYD'S INSURING THE ADANI CARMICHAEL COAL MINE - AUSTRALIA

In 2010 when Indian company Adani Group originally proposed the Carmichael coal mine in Queensland, Australia, it was planned to be one of the largest mines in the world. If built, it would "allow 500 more coal ships to travel through the Great Barrier Reef World Heritage Area every year for 60 years," and "destroy the ancestral lands, waters and cultures of Indigenous people without their consent." If allowed to operate, it is estimated the mine will add 4.6 billion tonnes of carbon pollution to the atmosphere and will suck out at least 270 billion litres of groundwater over the life of the mine.

To date, more than 70 financial institutions, including 18 insurers, have withdrawn from or committed not to be involved in the Adani Carmichael coal mine. However, Lloyd's confirmed in June 2020 to the Insure our Future network that it's members were currently insuring Adani, which is in opposition to their position in 2019. It appears that as other insurers have withdrawn from the project, Lloyd's members have stepped in to provide the insurance.

LLOYD'S INSURING THE TRANS MOUNTAIN PIPELINE EXPANSION - CANADA

An expansion to the existing Trans Mountain pipeline was proposed in 2010 to carry an extra 590,000 barrels of tar sands oil a year. On 6th August 2020, 140 organizations representing 24 million people wrote to Lloyd's and the remaining insurers of Trans Mountain pipeline asking them to not renew the insurance.

The letter noted that the existing Trans Mountain pipeline is a major public health and environmental hazard with a long history of spills and leaks. It called on Lloyd's to stop insuring Trans Mountain and exit the tar sands sector entirely, and for Lloyd's to adopt, as part of its insurance policies, a requirement to obtain and document the Free, Prior and Informed Consent of impacted communities, especially Indigenous communities.

To date, eight global insurers have adopted policies that limit or end insurance coverage for tar sands, citing concerns about the high-carbon intensity of the sector, including AXA, AXIS Capital, Generali, The Hartford, Munich Re, Swiss Re, Talanx, and Zurich. These insurers join a growing movement of investors and banks that are shifting capital out of tar sands.

The Trans Mountain expansion is a litmus test for insurers' commitments to the Paris Agreement which aims to limit global warming to 1.5°C. Dr Kirsten Zickfeld, lead author of the IPCC's report Global Warming of 1.5°C, has said Trans Mountain and other expansion of the oil industry and its infrastructure is not compatible with this target.

LLOYD'S CLIMATE HYPOCRISY

Lloyd's continues to underwrite and invest in fossil fuel companies despite being fully aware of and officially committed to the need to take action on climate change. Lloyd's own report, *Below 2 degrees: insurance for a low carbon economy*, highlights that the energy transition is "an opportunity for insurers to help manage new risks and support investment in expanding low-carbon sectors."

It recommends that insurers "work with brokers and policyholders to build a new generation of climate-supportive products and services," and "to start considering the impact on climate change created by their products and services." A Lloyd's report on stranded assets recommends screening and divestment from fossil fuels, including coal.

In 2015, Lloyd's signed the Paris Pledge for Action and thus committed to "work to support efforts in meeting and exceeding the ambition of governments to keep the world on a trajectory that limits the global warming temperature rise to less than 2 degrees Celsius." Lloyd's is also a member of the ClimateWise scheme "open to all (re)insurers, brokers and other insurance industry service providers globally who are leaders, or aspire to play a leadership role in supporting the insurance industry respond [sic] to the risks and opportunities of climate change." Membership requires Lloyd's adhere to principles of accountability, incorporating climate into strategies and investments, and reducing environmental impacts.

Lloyd's is happy to sign up to pledges and schemes claiming environmental leadership. But when it comes to putting those principles into action, Lloyd's is a hypocrite. Its time for Lloyd's to take its climate responsibilities seriously and to stop insuring coal, oil and gas projects and companies not in line with a 1.5°C pathway and to divest all assets from these companies.

IS CLIMATE CHANGE JUST TWO YEARS OF BAD WEATHER AND ABOVE AVERAGE CLAIMS?

Below is a transcript of a video interview given by Bruce Carnegie-Brown, the Chair of Lloyd's Council, to Business Insurance in August 2019.

"Natural catastrophe risk is the biggest risk we underwrite at Lloyds, it's a very big part of our business and it's something we are kind of well-known for and we spend a lot of time researching climate risk at Lloyd's because it is intrinsic to the profitability and the sustainable profitability of our business. ***One of the challenges with climate risk is really differentiating between what is climate change and what is just bad weather. We clearly had two years of above average natural catastrophe risk claims in 2017 and 2018 but it takes a bit of time for the models to respond to that because over a long period of time through which we have been collecting data we have seen these peaks of bad weather that haven't represented meaningful climate change.*** *Having said that I think we are absolutely persuaded that the climate is changing and this is going to be an increasingly important issue for our customers and therefore the products we have to offer are going to be increasingly important to the customers."*

Does Lloyd's most senior manager just really not understand the climate science?

WHAT IS LLOYD'S

Lloyd's is a specialist insurance and reinsurance market in which a concentration of specialist underwriters and 50+ insurance companies grouped together as syndicates operate globally.

A Lloyd's syndicate is formed by one or more members joining together to provide capital and accept insurance risks. Syndicates (there were 93 as of December 2019) are, technically, set up on an annual basis. In practice, they usually operate from year to year and function like permanent insurance operations. Lloyd's syndicates insure a wide range of specialist risk.

Business at Lloyd's is still often conducted face-to-face and its underwriting room located within Lloyd's building (the Inside-Out Building) in Lime Street EC3 in London is central to the market. The capital to underwrite policies is provided by members of Lloyd's. This capital is backed by many of the world's major insurance groups, listed companies, individuals and limited partnerships, with corporate groups providing the majority of capital for Lloyd's market.

BEHIND THE LLOYD'S MARKET IS THE LLOYD'S CORPORATION

Lloyd's Corporation is not itself an insurer but an independent organisation. Its role includes:

- **To promote the market and protect its reputation.**
- **To provide services including the infrastructure for processing risks.**
- **To maintain the building and the network of trading licences and offices.**
- **To produce industry research, reports and analysis.**
- **To maintain market stability, protect its credit rating and prevent underwriting behaviour which threatens the Central Fund.**

The Lloyd's Corporation also has statutory and regulatory obligations to oversee the market, which includes setting minimum standards and monitoring their compliance. Lloyd's byelaws set out a number of rules with which market participants are required to comply. Under one global brand, the Lloyd's market and Corporation work together to protect their joint interests.

Lloyd's Corporation may not itself be an insurer but the Lloyd's brand and structure overall is a little more complex. For example, Lloyd's Insurance Company China Limited can conduct non-life insurance and reinsurance business inside China, while Lloyd's Insurance Company S.A. is a fully operational and capitalised insurance company based in Belgium.

BEHIND THE LLOYD'S CORPORATION AND THE LLOYD'S MARKET IS THE LLOYD'S COUNCIL

LLOYD'S GOVERNANCE STRUCTURE

The Lloyd's Society was first incorporated by an Act of Parliament, the Lloyd's Act in 1871. The current governance structure and rules are defined by the Lloyd's Act 1982 under which the Council of Lloyd's was established to have control over the management and regulation of the affairs of the Lloyd's Society, including the power to make byelaws for these purposes.

Lloyd's Council has all the power it needs to control all aspects of the Lloyd's market. In June 2020, Lloyd's Council recentred its authority and confirmed the members of a newly formed Council in order to ensure efficient governance and management of the Lloyd's market and Corporation and to combine robust governance with swift decision making.

Lloyd's current byelaws note that in accordance with Section 6(2), Lloyd's Act 1982, the Council, "shall have the management and superintendence of the affairs of the Society and the power to regulate and direct the business of insurance at Lloyd's; and may exercise all the powers of the Society". "The Council may at any time give such directions or impose such conditions or requirements on any member (or any class or group thereof) as it thinks reasonably necessary or appropriate. Without prejudice to the generality of the foregoing, a direction, condition or requirement given or imposed under this paragraph may include a direction, condition or requirement for the purposes of... 3c) directing that the member cease, or reduce the level of, his underwriting business at Lloyd's, underwriting business of a specified class or underwriting business through a specified syndicate at Lloyd's."

The Council has 15 members which includes the three executive officers of Lloyd's Corporation appointed by the Council, namely Chief Executive Officer, Performance Management Director and Chief Financial Officer. The other members are elected by Lloyd's membership. The Chairman and Deputy Chairmen are elected annually by the Council members. The Council discharges some of its functions directly by making decisions and issuing resolutions, requirements, rules and byelaws. Other decisions are delegated to committees and the members of the Executive.

Lloyd's is regulated externally by the Prudential Regulatory Authority (PRA) and by the Financial Conduct Authority (FCA). The PRA is wholly owned by the Bank of England. It is responsible for upholding rules requiring firms to maintain sufficient capital and have adequate risk controls in place. The PRA can step in if firms are not being run in a safe and sound way or if insurers aren't protecting their policyholders. The FCA is an independent regulator funded by the firms it regulates and accountable to the Treasury and Parliament. Lloyd's is subject to the 2016 Solvency II regulatory and capital regime, which applies to the association of underwriters known as Lloyd's as a collective entity.

LLOYD'S HAS A UNIQUE CAPITAL STRUCTURE, OFTEN REFERRED TO AS THE 'CHAIN OF SECURITY'

All Lloyd's syndicates benefit from Lloyd's central resources, including the Lloyd's brand, its network of global licences and the Central Fund. All Lloyd's policies are ultimately backed by this common security, thus a single market financial rating is applied to every policy issued by every syndicate. The Lloyd's Corporation is responsible for setting both member and central capital levels to achieve a level of capitalisation that it describes as "...robust yet also allows members the potential to earn superior returns."

There are three links in the Chain of Security making up assets of approx £82 billion (2019):

- **First link - Syndicate level assets – £52 849 million**
- **Second Link - Members Funds at Lloyd's – £26 595 million**
- **Third Link - Central assets: Central Fund – £2 483 million**

The funds in the first link are premiums received by syndicates which are held in trust by the managing agents as the first resource for paying policyholders' claims and to fund regulatory deposits. The funds in the second link are Lloyd's members funds held in trust by Lloyd's to pay claims if they arise. Members underwrite for their own account and are not liable for other members' losses. The third link contains mutual assets held by the Lloyd's Corporation which are available, subject to Council approval, to meet any member's insurance liabilities.

COAL INVESTMENT EXCLUSION POLICY

Many insurance companies and other leading financial institutions exclude coal, tar sands and other harmful fossil fuel projects and sectors from their investments. Lloyd's did announce a coal exclusion policy for its Central Fund in April 2018, however the policy has a number of significant loopholes and the Central Fund accounts for only 3% of Lloyd's market assets.

The 2018 coal exclusion policy applies to assets held in segregated portfolios and commits to excluding any companies that meet at least one of the following criteria:

- **Generate more than 30% of their revenue from producing coal.**

- **Produce more than 20 million tons of coal per year.**
- **Generate more than 30% of their electricity from burning coal.**
- **Operate at least 10 GW of coal-fired power stations.**

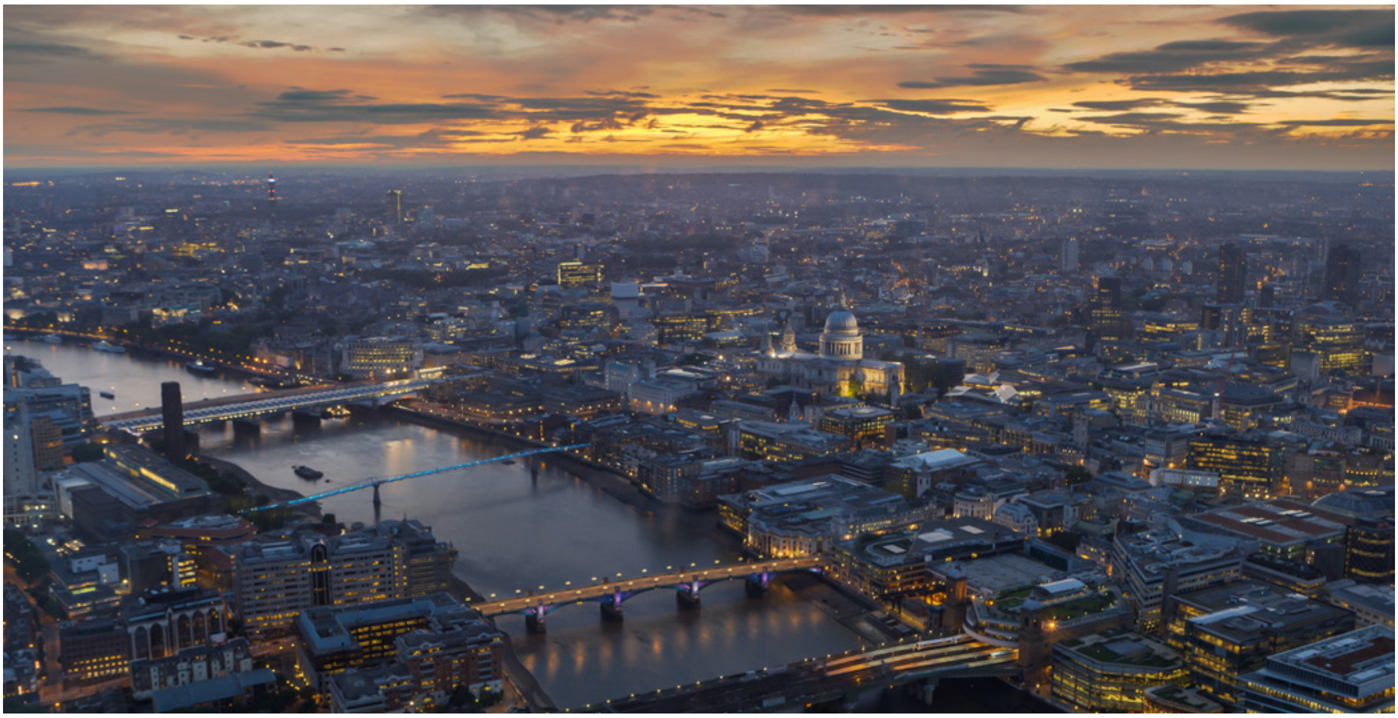
LLOYD'S 2019 TOP LINE FINANCIAL FIGURES

Lloyd's Gross Written Premium (GWP) in 2019 totalled £35.9 billion. Lloyd's 2019 profit of £2.5bn in 2019 comprised net investment income of £3.5bn (a return of 4.8%), an underwriting loss of £0.5bn and other expenses and foreign exchange costs of £0.5bn.

One big climate anomaly with Lloyd's is that some members have significant exposure to catastrophe risk which means that they are often liable to pay out when damage is caused by severe weather events and related catastrophes. The frequency and intensity of these are anticipated to increase due to climate change. Whilst some Lloyd's members insure a large portion of the global energy market, from which they earn substantial annual premiums.

Some Lloyd's members profit whilst some Lloyd's members, and all of us, share the losses from the damage caused by climate change, not to mention the oil spills, air pollution, habitat destruction, trampling of indigenous rights and a litany of other related issues, all of which are enabled by the insurance that the Lloyd's brand covers and the Lloyd's Council allows.

Lloyd's has a long way to go to bring its underwriting and its investment policies in-line with other leading insurers and with what is required to keep global warming under 1.5°C. Lloyd's Council cannot just pass the buck to the syndicates. Lloyd's Council, or behind it the UK parliament, have the ultimate responsibility for what takes place under the Lloyd's name.



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