ClientEarth

11 February 2022

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United Kingdom

The Society of Lloyd's and the Council of Lloyd's
1 Lime Street
London, EC3M 7HA
For the attention of Bruce Carnegie-Brown, John Neal, Patrick Tiernan, David Sansom and Rebekah Clement

By email: [redacted]

Dear Sir or Madam,

Lloyd's of London Environmental, Social and Governance Guidance

1. We refer to our previous correspondence, including our letter dated 13 December 2021[1] and your response dated 23 December 2021 (your "**Letter**"). This letter seeks clarity from the Society of Lloyd's (the "**Society**") on how it intends to operate the framework on climate change set out in its ESG Guidance for managing agents (the "**Guidance**") in practice.

2. Your Letter states that managing agents will *"be challenged"* where they fail to set *"robust and credible"* strategies for *"making the transition to net zero"*. However, neither the Guidance nor your Letter provides any clarity as to how the Society will judge the adequacy of managing agents' climate strategies, nor on the practical steps the Society will actually take where it considers that a managing agent has not set a credible strategy or is not taking sufficient action. The Society has publicly committed to transitioning the Lloyd's market (the "**Market**") to net-zero emissions by 2050. But without further information on the Society's approach to overseeing this transition, it is impossible for the public to tell whether the Society will actually take any meaningful action in the short-term to start the Market on this transition, or whether its public climate commitments are mere greenwash.

3. We would therefore be grateful if you could respond to the following questions regarding how the Society intends to operate its climate framework for the Market.

   a. <u>Transparency on strategies</u>: Will managing agents be required to publish their ESG strategies, or any information on their climate policies or targets? If so, please explain the level of information they will be required to publish.[2]

   b. <u>Decarbonisation targets</u>: Will a managing agent's ESG strategy be deemed inadequate by the Society if it fails to set either (or both):

      i. a net-zero emissions target for 2050 at the latest for the entirety of its emissions (including underwriting and investment portfolio emissions); or

[1] https://www.clientearth.org/latest/documents/clientearth-s-letter-to-the-society-of-lloyd-s-on-deficiencies-in-its-climate-change-guidance/

[2] The Guidance confirmed that emissions data for individual managing agents and syndicates will not be disclosed under the Sustainability Transparency and Reporting regime. This question asks about disclosure of ESG strategies and the climate targets included in those strategies.

   ii. some form of science-based short-term (e.g. 2025) and mid-term (e.g. 2030) emissions (or emissions intensity) reduction targets for its underwriting and investment portfolios?

c. Fossil fuel targets:

   i. Is the Society still asking managing agents to comply with the targets on coal, tar sands and Arctic oil set out in its ESG Report 2020?[3]

   ii. If not, will the Society expect managing agents' climate strategies to include any form of specific plans to reduce or limit the amount of cover provided for coal, tar sands and Arctic oil (in addition to any general decarbonisation targets)?

d. Enforcement: Your Letter states that managing agents will be *"challenged"* where they fail to put in place robust and credible strategies *"with an expectation that in such cases the managing agents will revisit and strengthen their plans"*. What specific steps would the Society take (including as part of its oversight framework and strategic business discussions with managing agents) where:

   i. The Society judges that a managing agent's emissions (or emissions intensity) reduction targets are not sufficiently ambitious, or the managing agent's plan to achieve those targets is not deemed credible? In particular, will the Society take any steps other than recommending (on an entirely voluntary, non-mandatory basis) that the managing agent updates its ESG strategy?

   ii. A managing agent's measured portfolio emissions (or emissions intensity) do not in fact reduce over time, in line with the targets in its climate strategy? In particular, will the Society take any steps other than recommending (on an entirely voluntary, non-mandatory basis) that the managing agent implements plans to reduce emissions in line with its targets?

   iii. A managing agent deliberately chooses not to target emissions (or emissions intensity) reduction in its underwriting portfolio, and instead plans to increase the amount of cover it provides for high carbon-intensity businesses that do not have credible transition plans?

e. Revision of Guidance: Does the Society intend to revise or strengthen the ESG Guidance in future, and if so when (e.g. annually)?

4. The above questions seek information on key features of the Society's approach to climate under the Guidance. The Society must know the answers to these questions, if it has a plan on how it will implement the Guidance and achieve its public commitment to transition the Market to net-zero. The Society has a responsibility to be transparent on the steps it is taking in relation to climate change, in light of the systemically significant role it fills in the insurance sector and in the underwriting of fossil fuel activities. Your Letter states that our previous letter was *"based on [ClientEarth's] reading of the Guidance"*. To the extent our reading of the Guidance is not accurate and does not reflect the Society's intentions for its climate framework, it suggests that there is room for interpretation within the Guidance and we would appreciate an explanation of the correct position. We therefore ask that you provide a response to the above questions as soon as possible.

Yours sincerely,

[3] The Guidance confirmed that these targets are not mandatory. This question asks whether managing agents are still being asked (on a non-mandatory basis) to comply with them.

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