ClientEarth

Complaint to the FCA

Admiral Group plc

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1 Executive Summary

1. Admiral Group plc ("**Admiral**") is a company providing motor and household insurance products and price comparison services through its operating subsidiaries. It is listed on the main market of the London Stock Exchange.

2. The purpose of this complaint (the "**Complaint**") is to bring two breaches of Admiral's legal duties to the attention of the Financial Conduct Authority ("**FCA**").

3. Climate change is a principal risk affecting the motor and household insurance sector. Furthermore, Admiral's business model suggests it may be particularly vulnerable to certain climate change risks. An analysis of both the general and specific risks posed by climate change is presented in section (3) of this Complaint.

4. Admiral is legally obliged to disclose the principal risks and uncertainties affecting its business in its annual report. A detailed discussion of the relevant provisions is given in section (4) of this Complaint.

5. Notwithstanding the above, Admiral has failed to mention climate change in its annual report at all. As a result, it is in breach of its legal duties under DTR 1A.3.2 R and DTR 4.1.8 R of the Disclosure Guidance and Transparency Rules ("**DTRs**"). Details are given in section (5) of this Complaint.

6. The FCA is responsible for enforcing the provisions of the DTRs. In turn, ClientEarth requests that the FCA i) imposes a financial penalty in an amount it considers appropriate, and ii) requires Admiral to publish information so as to rectify the deficiencies in its annual report.

7. In the alternative, ClientEarth requests that the FCA publicly censures Admiral for its failure to meet its legal duties. These submissions are detailed in section (6) of this Complaint.

2 Factual Background

2.1 ClientEarth

8. ClientEarth is a non-profit environmental law organisation based in London, Brussels, Warsaw and Beijing. ClientEarth's Climate Finance initiative analyses the legal implications of climate change-related risk for a wide spectrum of market participants, including insurance companies and regulators. We also engage and conduct advocacy with these stakeholders in relation to the specific and systemic risks of climate change.

2.2 Admiral Group plc

9. Admiral is a public limited company incorporated in England and Wales (Registered Company No 03849958) with offices in eight countries across the world. It provides car, van, travel and household insurance products, price comparison services, legal services and unsecured loans.

10. Admiral has had a premium listing on the main market of the London Stock Exchange since 28 September 2004. Its shares are included in the FTSE 100 index.

11. This Complaint relates to the annual report produced by Admiral for the year ending 31 December 2017.

3 The Materiality of Climate Change

12. In order to understand whether Admiral has a legal duty to report on climate change-related financial risks, it is first necessary to understand the nature and extent of those risks. This section therefore considers how climate change-related risks are material to i) the insurance sector generally, and ii) Admiral specifically.

3.1 The Materiality of Climate-Related Financial Risks to the Motor and Household Insurance Sector

13. Over the last few years, there has been a growing awareness of the risks which climate change pose to the insurance sector.

14. The Prudential Regulatory Authority's ("**PRA**") seminal paper, "*The Impact of Climate Change on the UK Insurance Sector*"[1] published in September 2015 provided an overview of some of these risks. Notably, its analysis suggested that "*there is potential for climate change to present a substantial challenge to the business model of insurers*"[2].

15. The paper categorised the challenges posed by climate change into physical, transition, and liability risks. This Complaint shall adopt the same terminology and includes a short summary of physical and transition risks below, plus an additional discussion of reputational risk.

16. Following these summaries, the recognition of these risks by financial regulators and the insurance sector shall be addressed.

3.1.1 Physical Risks

17. The Intergovernmental Panel on Climate Change ("**IPCC**") is the pre-eminent global scientific authority on climate change. The IPCC anticipates that the impacts of climate change will include:

    a. extreme precipitation events intensifying and becoming more frequent;

    b. a continued rise in global sea levels leading to coastal flooding; and

[1] *Bank of England (2015). "The impact of climate change on the UK insurance sector: A Climate Change Adaptation Report by the Prudential Regulation Authority" September 2015.*
[2] *Ibid, pg. 5*

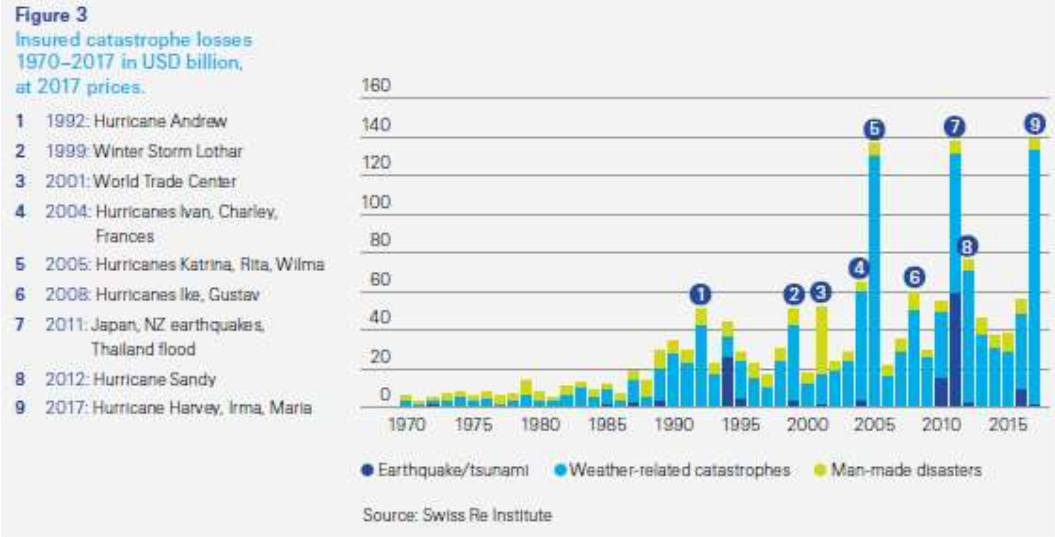
c. more frequent heat waves which persist over longer durations, and increased prevalence of drought and wildfires.[3]

18. The broad scientific consensus is that increasing global temperatures will have a significant impact on weather-related natural catastrophes, and will account for an increasing proportion of natural catastrophe losses.[4]

19. The IPCC has identified key climate-related risks that span sectors and regions. An example is systemic risks arising from extreme weather events that lead to a breakdown of infrastructure networks and critical services.[5]

20. All these risks are likely to lead to increased claims where they cause direct damage to insured property of all types – including vehicles. Attribution science is clearly showing that climate change is increasing the severity of the classes of events that impact insurance losses for car and property insurers.[6]

21. Analysis by Swiss Re has shown that insured catastrophe losses from catastrophes in 2017 were the highest on record at around $140 billion (£107 billion)[7].[8]



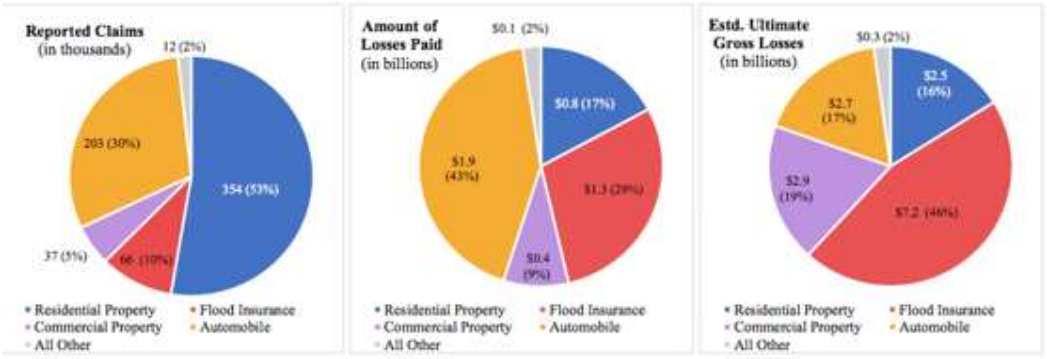
Source: Swiss Re Institute (2018), sigma No 1/2018.

[3] *IPCC (2014) "Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, R.K. Pachauri and L.A. Meyer (eds.)]." IPCC, Geneva, Switzerland.*
[4] *Ibid.*
[5] *Ibid pg. 65*
[6] *For example, see Bulletin of the American Meteorological Society (2017). "State of the Climate in 2016 - Special Supplement to the Bulletin of the American Meteorological Society" Vol. 98, No. 8, August 2017, and Risser, M.D. and Wehner, M. F. (2017). "Attributable human-induced changes in the likelihood and magnitude of the observed extreme precipitation during Hurricane Harvey." Geophysical Research Letters, 44, 12,457 –12, 464.*
[7] *All GBP £ figures in this Complaint are approximate based on an exchange rate of 1 USD = 0.763487 GBP.*
[8] *Swiss Re Institute (2018), sigma No 1/2018. "Natural Catastrophes and Man-Made Disasters in 2017: A Year of Record-Breaking Losses"*

22. The insurance industry acknowledges that natural catastrophe claims are increasing – and even discuss improvements in claims handling[9] – evidencing through action that climate change is necessitating changes to their business operations. In particular, it has been recognised that climate change has and will continue to impact both commercial and personal motor insurance profitability.[10]

23. The average individual motor loss from Hurricane Harvey was over $19,000[11] (£14,500) and a report issued by the Texas Department of Insurance acknowledged over 200,000 motor claims were submitted from that storm alone. Over 65% of those claims were declared total loss claims[12].

24. While the number of motor claims was lower than property claims, the actual paid losses were greater (see chart below). This demonstrates how motor insurers were disproportionately affected by Hurricane Harvey.



Source: Texas Department of Insurance (2018).

25. Whilst the nominal value of an average motor paid claim is less than a property claim, the sheer number of claims which are actually paid is far greater because flood damage is a covered peril under the motor line of business. As such, climate change impacted storm severity is particularly relevant to the motor insurance business.

26. In California, wildfires have resulted in similarly large numbers of property claims. In a data call issued by the California Insurance Commissioner to characterize claims arising out of the October 2017 fire season, it was revealed that the number of claims made for payable property insurance (approximately 5,700) was virtually the same as the number of motor claims payable (approximately 6,100). [13]

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[9] *Property Casualty Insurers Association of America (2018). "Insurers Have Improved Their Catastrophe Claims Handling Capabilities"*
[10] *For example, see http://blog.amtrustgroup.com/policywire/how-climate-change-could-affect-the-commercial-auto-insurance-industry*
[11] *See https://www.insurancejournal.com/news/southcentral/2018/02/13/480405.htm*
[12] *Texas Department of Insurance (2018). "Hurricane Harvey Data Call: Presentation to the Senate Business and Commerce Committee". 23 January 2018.*
[13] *California Department of Insurance (2017). Claims data available at http://www.insurance.ca.gov/0400-news/0100-press-releases/2017/upload/nr135Statewideclaims.pdf*

27. The UK also faces substantial physical risks from climate change. The Association of British Insurers ("**ABI**") recognises that five of the six wettest years on record have happened since 2000. Risks which would have been expected to happen only every 100 years, are now expected to occur every 80 years. Furthermore, a total of 4.4 million homes are at risk of river, coastal or surface water flooding.[14] This impacts not only buildings, but also the cars parked there which are often multiple.

28. In addition, the ABI warns that the UK faces more severe and costly windstorms. Analysis shows that a temperature increase of just a few degrees, as is predicted, could increase insured losses for high wind which could be 11% - 25% higher nationwide.[15]

29. Relevantly, insured assets are becoming highly concentrated in urban areas.[16] Coastal urban concentration of property value of all types – from homes to cars and more – increases expected urban claims loss.[17] This is demonstrated by the fact that urban concentration affected loss patterns in the aftermath of Hurricane Harvey.[18]

30. For urban areas in particular, the IPCC states that "*climate change is projected to increase risks for people, assets, economies and ecosystems, including risks from heat stress, storms and extreme precipitation, inland and coastal flooding, landslides, air pollution, drought, water scarcity, sea level rise and storm surges.*"[19]

31. Such risks have significant financial ramifications. This financial impact is highlighted in the Lloyds' City Risk Index which discussed the economic consequences of climate change for the cities in its index. It anticipates that climate events will cost those cities $122.98 billion (£93.85 billion) every year.[20]

32. Recent weather events provide an insight into the magnitude of the problem. Lloyd's of London estimated that the storm surge from Hurricane Sandy increased surge losses by 30% due to the 20 cm sea level rise since 1950.[21]

33. Furthermore, we know that the storm surge from Hurricane Sandy contributed significantly to the overall insured losses. For residential claims, insured losses were roughly split between wind and flood damage. However, for commercial claims, approximately 65 – 70% of insured losses were caused by flood.[22]

34. The insured loss of Hurricane Sandy was reported as being $35 billion (£27 billion).[23] A conservative estimate therefore suggests that sea level rise due to climate change increased insured losses by at least $5 billion (£4 billion). Swiss Re estimate that if sea levels rise by 0.25 metres by 2050, extreme flood losses will almost double as shown below.[24]

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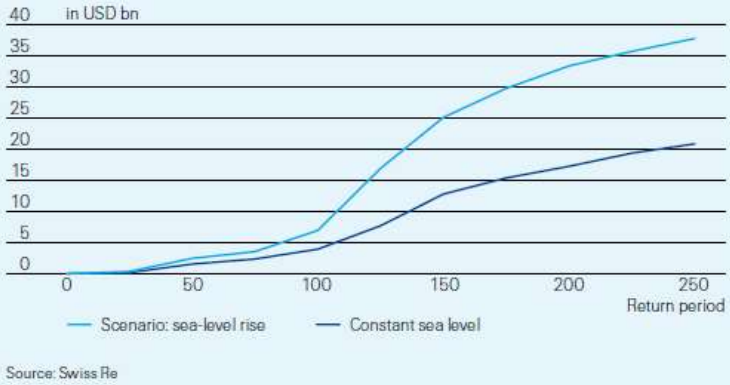
[14] *See https://www.abi.org.uk/products-and-issues/topics-and-issues/climate-change/*
[15] *See ABI commentary at https://www.abi.org.uk/news/news-articles/2017/10/its-an-ill-wind--30-years-on-from-the-1987-great-storm-the-uk-faces-more-severe-and-costly-windstorms/ and their full report "UK Windstorms and Climate Change" dated 31 January 2017.*
[16] *ClimateWise (2017). "Insurable Cities: ClimateWise Principles Independent Review 2017" University of Cambridge Institute for Sustainability Leadership and PwC.*
[17] *For example, see https://www.iii.org/article/spotlight-on-catastrophes-insurance-issues*
[18] *Texas Department of Insurance (2018).*
[19] *IPCC, 2014. Pg. 69*
[20] *Lloyd's of London (2018). "Lloyd's City Risk Index: Executive Summary".*
[21] *Lloyd's of London (2014). "Catastrophe modelling and climate change."*
[22] *Swiss Re Institute (2013), sigma No 2/2013. "Natural catastrophes and man-made disasters in 2012: A year of extreme weather events in the US".*
[23] *Ibid.*
[24] *Ibid, pg. 15.*

Figure 4
Insured losses reached or exceeded for a given return period in a scenario with sea levels rising by 10 inches and current sea levels.



Source: Swiss Re Institute (2018), sigma No 1/2018.

35. In the same vein, the Union of Concerned Scientists ("**UCS**") recently published a report which found that sea level rise will put billions of dollars of property, and the motors garaged there by implication, at risk. Their analysis concludes that more than 300,000 of today's homes and commercial properties in the coastal United States are at risk of chronic disruptive flooding within the next thirty years.[25] The threat to coastal property has been recognised for decades. Television reports as far back as 1958 discuss the potential consequences of continued greenhouse gas emission on coastal cities in the United States such as Miami.[26]

36. These combined impacts have profound consequences for insurers. Maurice Tulloch, the Chief Executive Officer International Insurance for Aviva, has remarked that "*the exponential increase in risk exposure, in many global cities, is undermining large parts of our existing business model. The cost of extending sustainable insurance cover is now simply not affordable in many places. A proactive response is required*."[27]

37. However, climate change is not only likely to result in increased claims for property and motor damage. Climate change may also affect insurers' investment portfolios.

38. For instance, the value of real estate is expected to fall in flood-prone areas. The UCS concluded that "*the cliff's edge of a real estate market deflation due to flooding and sea level rise is already visible for many communities*".[28]

39. Additionally, climate change will also impact supply chains, distribution networks, customers and markets.[29] Disruption from extreme weather events could lead to bond defaults or share

[25] *Union of Concerned Scientists (2018). "Underwater: Rising Seas, Chronic Floods, and the Implications for US Coastal Real Estate". Pg. 25.*
[26] *John Englander, 2018. "Amazing 1958 Two-Minute TV Clip About Climate Change." Accessed via https://www.linkedin.com/pulse/amazing-1958-two-minute-tv-clip-climate-change-john-englander/ on 10 July 2018.*
[27] *ClimateWise (2017), pg 4.*
[28] *Union of Concerned Scientists (2018). "Underwater: Rising Seas, Chronic Floods, and the Implications for US Coastal Real Estate". Pg. 25.*
[29] *European Bank for Reconstruction and Development (2018). "Advancing TCFD guidance on physical climate risks and opportunities."*

price reductions.[30] Given the global nature of the supply chain in many sectors, the impact could be profound.

40. In many cases, companies have a poor understanding of the exposure that their supply chains have to extreme weather events. Nick Wildgoose, the Global Supply Chain Product Leader of Zurich Insurance Group, states that:

> "*Most companies in our interconnected world depend fundamentally on their supply chain. There's hardly anybody running industry now that doesn't. And I'm afraid to say that many of these companies still fail to understand where their critical suppliers are, from an extreme-weather point of view."*[31]

41. A recent example is the catastrophic flooding in Thailand during 2011. The floods resulted in extensive damage to commercial properties and business interruption losses. The high losses were ascribed to a combination of the following factors:

    a. Thailand's role in the global manufacturing supply chain;

    b. the scale of the affected areas;

    c. a high concentration of property values;

    d. high insurance penetration; and

    e. insufficient pre-disaster preparedness.[32]

42. Furthermore, credit downgrades are anticipated for municipalities that do not engage in addressing climate change threats. Local governments are considered more likely to default where they suffer direct financial losses due to climate change and sea level rise, combined with a decreasing tax base resulting from water hazards. [33]

43. These risks are highly relevant to insurers as they may detrimentally impact their investments. This could result from downgrades to national bonds, municipal bonds and corporate bonds due to an increased likelihood of default. There may also be sharp reductions in the value of climate-vulnerable companies and real estate. Finally, climate change may significantly increase the risk of investments which are secured against real estate.

44. The correlation of these risks on both sides of the balance sheet only compounds the problem. The credit rating agency, Moody's, considers that this correlation results in a negative credit impact for P&C (re)insurers. Their view is that "*the property and casualty (P&C) insurance and*

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[30] *Bank of England, 2015.*
[31] *"Interconnected Risks Put Global Businesses in Path of Extreme Weather Events" Bloomberg 6 June 2018. Accessed via https://www.bloomberg.com/news/sponsors/zurich/interconnected-risks-put-global-businesses-in-path-of-extreme-weather-events/?adv=6712&prx_t=1LgDAAAAAAFEANA on 10 July 2018.*
[32] *Swiss Re Institute (2012), sigma no 2/2012. "Natural catastrophes and man-made disasters in 2011: historic losses surface from record earthquakes and floods".*
[33] *Miller, John A., (2018). "Credit Downgrade Threat as a Non-regulatory Driver for Flood Risk Mitigation and Sea Level Rise Adaptation" Master of Environmental Studies Capstone Projects. 73.*

reinsurance sector have significant exposure to the economic consequences of climate change."[34]

45. Consequently, the physical risks from climate change go to the heart of insurance. As ClimateWise have recognised, "*growing physical risks driven by climate change and an increasing population vulnerable to these risks means insurers need to rethink the traditional insurance model*".[35]

3.1.2 Transition Risks

46. The Paris Agreement entered into force in 2016 and set out a global action plan to curb dangerous climate change by holding increases in global average temperature to well below 2°C, and to pursue efforts to limit the temperature increase to 1.5°C.

47. If the world is to achieve the objectives of the Paris Agreement, a significant shift in the trajectory of carbon emissions will be required.[36] This transition to a low carbon economy could have a significant impact on the value of financial assets and their capital returns. These could result from policy changes, legal actions, technological changes, market responses, and reputational considerations.[37]

48. Such a transition would result in a wealth of business opportunities for many sectors.[38] However, it also poses serious challenges to certain sectors who do not or cannot adapt.

49. In particular, the fossil fuel industry faces significant stranded asset risks as a result of the transition to a low-carbon economy. Stranded assets can be defined as assets which become obsolete or non-performing, leading to premature write-downs, devaluation or conversion to liabilities.[39]

50. To put this into context, a study from University College London concluded that to have a 50% chance of limiting warming to 2°C, 33% of oil reserves, 50% of gas reserves, and 80% of coal reserves should remain unused.[40] [41] Such assets are therefore especially vulnerable to being written off and becoming stranded assets.

51. The most striking example is that of coal. In recent years, US coal has been in drastic decline. Between 2008 and 2016, coal production fell by 38%. As a result, its share of energy generation in the US fell from 50% to 30% within the same period.[42]

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[34] *Moody's (2018). "Sector In-Depth: P&C Insurance and Reinsurance – Global. Climate change risks outweigh opportunities for P&C (re)insurers." 14 March 2018.*
[35] *ClimateWise (2017), pg 5.*
[36] *International Energy Agency (2017). "Energy Technology Perspective 2017: Catalysing Energy Technology Transformations, Executive Summary".*
[37] *Kepler Cheuvreux Transition Research (2018). "Investor Primer to Transition Risk Analysis: Summary". Climate Scenario Compass: Climate Change & Natural Capital. 31 January 2018.*
[38] *Task Force on Climate-related Financial Disclosures (2017). "Recommendations of the Task Force on Climate-related Financial Disclosures". June 2017.*
[39] *Caldecott, B. (2017). "Introduction to special issue: stranded assets and the environment" Journal of Sustainable Finance & Investment Volume 7, 2017 – Issue 1: Stranded Assets and the Environment.*
[40] *McGlade, C. & Ekins, P. (2015). "The geographical distribution of fossil fuels unused when limiting global warming to 2°C" Nature volume 517, 187–190. 08 January 2015.*
[41] *Indeed, this assessment may be conservative in light of the fact that the Paris Agreement in fact aims to keep global temperature increases "well below" 2°C, rather than simply limiting them to 2°C.*
[42] David, *Schlissel, IEEFA (2018). "Can the US coal industry come back", Forum, Issue 111, The Oxford Institute for Energy Studies*

52. Financial analysts do not expect this picture to change, despite the actions of the Trump Administration, due to competitive pressure from natural gas and renewables.[43] Carbon Tracker estimates that the total stranded asset value for US coal owners is $104 billion (£79 billion) for the period to 2035 under the International Energy Agency's "Beyond 2°C Scenario".[44]

53. These issues are not unique to the US. Carbon Tracker has also found that 54% of operating coal capacity in Europe is cash flow negative today, increasing to 97% by 2030. This makes units reliant on lobbying to secure capacity market payments and avoid air pollution regulations.[45]

54. However, the fossil fuel sector is not the only sector which is exposed to transition risks. Many other sectors may also be significantly affected.

55. For instance, it is anticipated that the world's biggest meat and dairy companies could surpass major fossil fuel companies as the largest climate polluters in the world within the next few decades. The top five meat and dairy corporations are already responsible for more annual greenhouse gas emissions than ExxonMobil, Shell or BP.[46] This footprint exposes the sector to potential changes in policy, technology, and consumer preferences in much the same way as the fossil fuel industry.

56. Overall, research suggests that the combined exposure to sectors that could be affected by the climate and energy transition is about 45 – 47% of equity portfolios. However, the same research also concludes that climate-related risks tend not to be fully captured or priced in by current financial models, analyses, or recommendations.[47]

57. As a result, the Bank of England has warned that "*a wholesale reassessment of prospects, as climate-related risks are re-evaluated, could destabilise markets, spark a pro-cyclical crystallisation of losses and lead to a persistent tightening of financial conditions: a climate Minsky moment.*"[48]

58. It is often assumed that these risks are contingent on governments adopting Paris-compliant policies. However, a recent study concludes that this risk exists as a result of our current technological trajectory, regardless of whether new climate policies are adopted. Nevertheless, new climate policies may amplify the impact.[49]

59. Consequently, it is estimated that losses from stranded fossil fuel assets alone could amount to a discounted global wealth loss of $1 - $4 trillion (£0.8 - £3 trillion), with some regions being disproportionately affected.[50]

60. The timeframe for these risks to crystallise is inherently uncertain and could be unexpectedly abrupt. A recent survey found that the fund management sector agreed that transition risk will

[43] *Ibid.*
[44] *Carbon Tracker Initiative (2017). "No country for coal gen: Below 2°C and regulatory risk for US coal power owners". September 2017.*
[45] *Carbon* Tracker Initiative (2017). "*Lignite of the living dead: Below 2°C scenario and strategy analysis for EU coal power investors*". December 2017.
[46] *Institute for Agriculture & Trade Policy and GRAIN (2018). "Emissions impossible: How big meat and dairy are heating up the planet".*
[47] *Kepler Cheuvreux Transition Research (2018).*
[48] *Speech by Mark Carney, Governor of the Bank of England. "A Transition in Thinking and Action" 6 April 2018.*
[49] *J.-F. Mercure et al. (2018) "Macroeconomic Impact of Stranded Fossil Fuel Assets." Nature Climate Change, Volume 8, pgs. 588–593.*
[50] *Ibid.*

significantly affect oil company valuations in the next five years, while 90% expected at least one risk to significantly impact valuation within two years.[51] Climate change therefore presents a short, medium and long-term risk.

61. Partly as a response to concerns raised by the Bank of England, Lloyd's of London released a report on how stranded asset risk may affect the assets and liabilities of the (re)insurance sector. Their view was that "*physical environmental change and societal response to these changes could potentially strand entire regions and global industries within a very short timeframe, with direct and indirect impacts on international insurance markets*."[52]

62. A recent analysis was also conducted by the California Department of Insurance with regard to insurers' investments.

63. This analysis revealed that Californian insurers were heavily exposed to the stranded asset risks associated with coal as their portfolios were consistent with a trajectory of six degrees of warming.[53] This over exposure is unlikely to be confined to Californian insurers, and insurers globally should be assessing and managing their exposure to high-risk sectors such as coal.

64. Transition risks are therefore a material business risk for insurance companies, including motor and household insurers, which must be identified, managed and disclosed to investors.

3.1.3 Reputational Risk

65. The role that the insurance industry plays in financing the fossil fuel sector is coming under increased public scrutiny. Prominent civil society movements, such as the Unfriend Coal campaign, are insisting that insurance and reinsurance companies cease facilitating projects that fuel climate change. To date, this mounting pressure has led to a tide of new restrictions on their investment activities.[54]

66. Unfriend Coal estimates that nearly half of the global reinsurance market has now divested from coal. Reinsurers such as Hannover Re, Swiss Re, Munich Re, SCOR, and Lloyd's have all introduced divestment policies within the last year or two.[55]

67. Overall, seventeen (re)insurers are reported to have adopted divestment policies in respect of joint assets over $6 trillion (£4.5 trillion). Unfriend Coal estimates that $30 billion (£23 billion) has been withdrawn from the coal sector as a result.[56]

68. These developments are notable for several reasons:

    a. First, insurers who remain engaged in such activities are likely to become targeted by campaigners which could result in direct reputational damage. As increasingly

[51] *UKSIF and the Climate Change Collaboration (2018). "Not long now: Survey of fund managers' responses to climate-related risks facing fossil fuel companies" April 2018.*
[52] *Lloyd's of London (2017). "Stranded Assets: the transition to a low carbon economy. Overview for the insurance industry." Emerging Risk Report 2017, Innovation Series: Society and Security.*
[53] *California Department of Insurance. Analysis available at https://interactive.web.insurance.ca.gov/apex_extprd/f?p=250:70*
[54] *"The beginning of the end for coal investment and underwriting". Published by Insurance ERM on 19 April 2018.*
[55] *Unfriend Coal (2018). "Close to half global reinsurance market divests from coal" 19 June 2018. Accessible via https://unfriendcoal.com/2018/06/19/close-to-half-global-reinsurance-market-divests-from-coal/*
[56] *Ibid.*

ambitious policies are adopted, laggards may find it challenging to justify their inaction.

b. Second, they are indicative of a growing movement away from activities and investments that are contrary to the aims of the Paris Agreement. For a large part, this can be seen as a response to reputational risk. As such, reputational pressure may be a key driver of the transition risks discussed in section 3.1.2 above.

3.1.4 Regulatory Recognition of the Risks posed by Climate Change

69. Given the substantial challenges detailed above, climate change is a rising priority on the regulatory agenda. The risks associated with climate change and their impacts have been noted by three of the major financial regulators in the United Kingdom: the Prudential Regulatory Authority, the Financial Conduct Authority, and the Financial Reporting Council. These are discussed in turn below.

3.1.4.1 The Prudential Regulatory Authority (PRA)

70. The PRA is responsible for the prudential regulation of financial institutions including insurance companies. Over the last few years, the PRA has been increasingly vocal about the financial risks posed by climate change.

71. Paul Fisher, then the Executive Director of Insurance Supervision at the PRA, identified some of the financial risks associated with climate change in a speech in early 2015. He commented that:

> *"insurers, as long term investors, are also exposed to changes in public policy as this affects the investment side. One live risk right now is of insurers investing in assets that could be left 'stranded' by policy changes which limit the use of fossil fuels. As the world increasingly limits carbon emissions, and moves to alternative energy sources, investments in fossil fuels and related technologies – a growing financial market in recent decades – may take a huge hit. There are already a few specific examples of this having happened*."[57]

72. The governor of the Bank of England, Mark Carney, expanded on the financial stability risks associated with climate change in a speech at Lloyd's of London in 2015.[58] In this speech he discussed physical, transition and liability risks facing the insurance sector. Carney remarked that:

> "*Insurers are therefore amongst those with the greatest incentives to understand and tackle climate change in the short term. Your motives are sharpened by commercial concern as capitalists and by moral considerations as global citizens."*

[57] *Speech by Paul Fisher (2015), 'Confronting the challenges of tomorrow's world', 3 March 2015.*
[58] *Speech by Mark Carney (2016), "Breaking the Tragedy of the Horizon – climate change and financial stability" 29 September 2015.*

73. At the same time, the PRA published its report on climate change and the insurance sector which explored the issues in greater detail.[59] This was followed by a quarterly bulletin published by the Bank of England in 2017 which revisited these risks and their relevance to financial regulators.[60]

74. Carney further addressed climate-change related risks at the International Climate Risk Conference for Supervisors in April 2018. In that speech, he spoke extensively about the impact of climate change on insurers.

75. Carney reiterated that insurers were on the "*front line of the physical risks posed by climate change*". He also warned that insurers needed to be wary of cognitive dissonance whereby climate risks are ignored by insurers' asset managers.[61]

76. Furthermore, Carney emphasised that insurers will need to consider the longer-term impacts of climate change on their business models. Annual repricing and the withdrawal of coverage could only mitigate the risks to an extent.

77. The PRA is clearly aware of the systemic financial risks that climate change poses, and the particular vulnerabilities of the insurance sector. Notably, it has alluded to further regulatory scrutiny of climate change risks in the future with a focus on disclosure.[62]

3.1.4.2 The Financial Conduct Authority (FCA)

78. The FCA has recently discussed climate change risks as part of its response to a Law Commission report on pension funds and social investment.[63]

79. In its response, it confirmed that "*the FCA consider that financially material ESG risks, including climate change risks, should be incorporated into investment decision making*".[64]

80. While the comments are made in the context of pension funds, the investment challenges they face largely mirror those facing insurers. Both pension funds and insurers are vulnerable to the transition risks discussed above. Against that backdrop, the FCA's comments are equally relevant to the present Complaint.

81. Furthermore, the FCA recently responded to the Environmental Audit Committee's Green Finance report. They listed a number of proactive steps which they are taking with regard to climate change-related disclosures.

82. As part of this, the FCA stated it will "*highlight to issuers the need to make adequate disclosures regarding materially important information, including information that allows investors to understand how ESG matters affect the valuation of a listed company's securities and how these matters are managed by the company*."[65]

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[59] *Bank of England (2015).*
[60] *Bank of England (2017). "Quarterly Bulletin 2017 Q2 – Topical article: The Bank of England's response to climate change".*
[61] *Speech by Mark Carney (2018).*
[62] *See https://uk.reuters.com/article/us-boe-insurance-regulations/bank-of-england-to-intensify-climate-change-scrutiny-of-insurers-idUKKCN1J30UO*
[63] *Law Commission (2017). "Pension Funds and Social Investment " Law Comm No. 374 printed 22 June 2017.*
[64] *Department for Work & Pensions (2018). "Pension funds and social investment: the Government's final response" June 2018.*
[65] *Letter from David Geale, Director of Policy at the FCA, to Mary Creagh MP, Chair of the Environmental Audit Committee, dated 6 July 2018.*

83. It is ClientEarth's submission that this Complaint represents an opportunity for the FCA to take action in line with its recent statement.

3.1.4.3 The Financial Reporting Council (FRC)

84. The FRC is responsible for monitoring corporate reporting and compliance with accounting requirements.[66] Climate change has been a strong theme identified in the FRC's Annual Reviews of Corporate Reporting for both 2015/2016 and 2016/2017.

85. In the 2015/2016 Review, the FRC states that: "*We encourage companies to consider a broad range of factors when determining the principal risks and uncertainties facing the business, for example cyber-crime and climate change*."[67]

86. In the 2016/2017 Review, the FRC stated that "*we expect reference to be made to the impact of climate change where relevant for an understanding of the company's activities*."[68]

87. In 2017, the FRC also published a draft of proposed amendments to their Guidance on the Strategic Report, which specifically highlights climate change as an example of the type of risk that entities should be considering.

88. This echoes the increasing importance that investors are placing on climate-related disclosures. Stephen Haddrill, CEO of the FRC, has written that investors have "*expressed surprise that risks relating to data protection in IT system / cyber risks and risks from climate change are not reported more often as principal risks*."[69]

3.1.5 Sectoral Recognition of the Risks Posed by Climate Change

89. The Sustainable Insurance Forum ("**SIF**") has recognised that "*climate change is one of the most serious long-term threats to the financial system. Insurance is one of the financial sub-sectors most exposed to climate-related risks, being potentially exposed on both sides of its balance sheet."*[70] This has been echoed in research with LeBlanc and Linkin identifying insurance as the "*canary in the coal mine*" for climate-related financial risks.[71]

90. Importantly, SIF also warns insurance companies against *"prematurely concluding that climate-related risks are not material based on a certain perception of their longer-term nature."*[72]

91. As a result of the significance of climate change risks, SIF has been working with the International Association of Insurance Supervisors ("**IAIS**") to produce an *"Issues Paper on Climate Change Risks to the Insurance Sector".* The paper states that "*physical and transition*

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[66] *Financial Reporting Council (2017). "FRC Roles and Responsibilities: Schedule of Functions and Powers" June 2017.*
[67] *Financial Reporting Council (2016). "Annual Review of Corporate Reporting 2015/2016". October 2016.*
[68] *Financial Reporting Council (2017). "Annual Review of Corporate Reporting 2016/2017". October 2017.*
[69] *Letter from Stephen Haddrill to the Audit Committee Chairman dated 15 December 2015.*
[70] *Sustainable Insurance Forum (2017). "Leading Insurance Supervisors Support Adoption of Climate Disclosure Recommendations" Response to FSB TCFD Recommendations Report public consultation.*
[71] *LeBlanc, A. and Linkin, M. (2010). "Insurance industry". InClimate Change Adaptation in New York City: Building a Risk Management Response: New York City Panel on Climate Change 2010 Report, pp. 113, New York, NY: Annals of the New York Academy of Sciences.*
[72] *Sustainable Insurance Forum (2017).*

risks may pose different strategic, operational, and reputational risks to insurers across underwriting and investment business. While certain climate-related risk factors are long-term in nature, some are already having material impacts".[73]

92. Some insurance companies have already made progress in recognising the material risks posed by climate change. This can be seen in the annual reports produced by other leading insurers.

93. For instance, AXA recognises in its annual report that "*the consequences of climate change are expected to significantly impact the insurance industry, including with respect to risk perception, pricing and modelling assumptions, and the need for new insurance products, all of which may create unforeseen risks not currently known to us*".[74]

94. Thomas Buberl, the CEO of AXA, has further commented that "*a +4°C world is not insurable*"[75]. This drives home that insurers' business models may be fundamentally threatened by climate change.

95. Another example is provided in the annual report of Aviva. In describing their principal risks, they include "*Climate change - potentially resulting in higher than expected weather-related claims (including business continuity claims) and inaccurate pricing of general insurance risk, as well as adversely impacting economic growth and investments markets. Trend - increasing. Risks impacted: General insurance risk, credit risk, market risk.*"[76]

96. Steve Waygood of Aviva has commented that: "*Many scientists are saying that 4, 5, 6 degrees is at least a risk that we need to be considering. At 4 degrees the insurance business model fails to exist. We could not underwrite to the price that the economy can afford. At 6 degrees […] the present value of risk from 6 degrees change is £42 trillion. Of course, these are models but, in terms of the hazards that we would experience, we are talking about economic meltdown."*[77]

97. The insurance industry has been aware of these issues for some years. In 2006, a former CEO of Swiss Re, John Coomber, stated that "*climate change is the number one risk in the world ahead of terrorism, demographic change, and other global risk scenarios.*"[78] Indeed, in surveys conducted by PWC, insurance companies have consistently ranked climate change and natural catastrophes amongst the most significant risks.[79]

98. These concerns were echoed in this years' Global Risks Report published by the World Economic Forum. Their survey found both "*natural disasters*" and the "*failure of climate-change mitigation and adaptation*" ranked in the top 5 risks for likelihood and impact.[80]

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[73] *International Association of Insurance Supervisors and Sustainable Insurance Forum (2018). "Issues Paper on Climate Change Risks to the Insurance Sector." pg. 17.*
[74] *AXA Annual Report 2017.*
[75] *See https://www.axa.com/en/newsroom/press-releases/axa-accelerates-its-commitment-to-fight-climate-change*
[76] *Aviva plc Annual Report 2017.*
[77] *House of Commons Environmental Audit Committee (2018). "7th Report - Greening Finance: Embedding Sustainability in Financial Decision Making." 04 June 2018, pg. 6.*
[78] *Kunreuther, H.C. and E. Michel-Kerjan (2007). "ClimateChange, Insurability of Large-Scale Disasters and the Emerging Liability Challenge." Cambridge, MA: National Bureau of Economic Research, pg. 3.*
[79] *See PWC "Insurance Banana Skins" series.*
[80] *World Economic Forum (2018). "Global Risks Report 2018: 13th Edition".*

99. Research supports these conclusions, finding that "*Climate change is influencing capital accumulation in the insurance industry by increasing the frequency and intensity of damage from extreme weather events, which threatens the availability and affordability of coverage and the ability to diversify risk across investment portfolios*."[81]

100. The same research concludes that the majority of insurance companies do not integrate climate change into their risk management practices. Instead, they rely on their existing governance, underwriting and investment practices. Their approach is usually predicated on an assumption that annual adjustments to rates are sufficient to manage climate risk. They also rely on third-party vendor catastrophe models to determine premiums and reserves. [82]

101. This is problematic as existing risk management frameworks are ill suited to managing climate risk which acts across an unprecedented range of temporal and geographical scales. In particular:

    a. The majority of third-party catastrophe models do not expressly account for climate change. This is despite the fact that models can be conditioned to reflect possible future changes.[83] Rather, they rely on implicit climatic trends embedded in historical data. [84] Relying on this approach assumes that climate change will continue to increase gradually in line with historic trends.

    Such assumptions are dangerous, especially since global weather patterns could mask the true impacts of climate change on historical data sets. Furthermore, there could be abrupt shifts in climate change once tipping points are surpassed which such models are blind to.[85]

    This is echoed by some of the major insurers. According to Iwan Stalder, Zurich's Head of Global Cat Management, "*It's important that we look at the risk beyond the historical record. If we believe nothing worse can happen than we have seen so far, we will miss the worst event.*" He adds that "*the historical record is a good starting point, but for [natural catastrophe modelling] it is not enough*."[86]

    b. Relying on annual rate adjustments involves similar assumptions of gradual, manageable changes in climate. For the reasons stated above, this assumption is questionable. It also ignores the spectre of assets being rendered uninsurable if risks become too great. Premiums can only increase so much before a line of business becomes unviable. Furthermore, endlessly increasing premiums may not be feasible where governments intervene.

    c. Finally, it is unclear whether the existing risk management approach acknowledges the degree to which climate risks are correlated. A significant increase in natural

[81] *Wood, M. and Thistlethwaite, J. (2018). "Insurance and Climate Change Risk Management: Rescaling to Look Beyond the Horizon" British Journal of Management, Vol. 29, pg. 282.*
[82] *Ibid.*
[83] *The Review Worldwide Insurance (2008). "A Guide to Catastrophe Modelling". In association with RMS, pg 17.*
[84] *Lloyd's of London (2014).*
[85] *For instance, see Alley et al. (2003). "Abrupt climate change" Science, 299, 2005 – 2010, and American Association for the Advancement of Science. What We Know: The Reality, Risks, and Response to Climate Change."*
[86] *See https://www.bloomberg.com/news/sponsors/zurich/interconnected-risks-put-global-businesses-in-path-of-extreme-weather-events/?adv=6712&prx_t=1LgDAAAAAAFEANA*

catastrophe pay outs could be more difficult to meet if stranded asset risks are concurrently materialising in insurers' investment portfolios.

102. In light of the above, it is clear that climate change poses challenges beyond the traditional risks often identified by insurance companies. It is therefore imperative that insurance companies disclose these risks to their shareholders and explain how they are being managed. Indeed, SIF has recognised the "*critical importance*" of adequate climate disclosure.[87]

103. A framework for disclosing climate-related financial risks was published by the Task Force on Climate-related Financial Disclosures in June 2017.[88] This recommended framework was accompanied by sector-specific supplemental guidance on implementation for the insurance industry.[89] Accordingly, there are existing sources of advice on how material climate-related risks should be disclosed.

3.2 Additional Material Climate-risk Factors Applicable to Admiral

104. The previous section gave an overview of the challenge which climate change poses to motor and household insurers. However, climate change is likely to impact insurance companies differently depending on their business models. This section provides some additional examples of how Admiral may be particularly vulnerable to climate change.

3.2.1 Business-wide

105. Admiral is a household name in the United Kingdom. This may make it particularly susceptible to the reputational risks discussed above. For instance, the Ethical Consumer gave Admiral the "*worst"* rating for environmental reporting and climate change – noting a complete "*lack of transparency*" with respect to climate risk in investments, a failure to participate in any climate initiatives, and a lack of transparency in shareholding and voting records with respect to climate change.[90] This may cause concern not only for consumers, but also shareholders.

106. In addition, Admiral has previously identified some further climate risks affecting their business. In their CDP report from 2013, they describe the following risks that are driven by change in physical climate parameters:

a. "*Change in mean (average) precipitation – Increase in flood risk potentially increasing claim frequency and severity*";

b. "*Snow and ice – Increase in frequency of snow and ice during winter period potentially increasing claim frequency and severity*"; and

c. "*Other physical climate drivers – Wind storm and gales risk potentially increasing claim frequency and severity".*[91]

[87] *Sustainable Insurance Forum (2017).*
[88] *Task-Force on Climate-related Financial Disclosures (2017).*
[89] *Task-Force on Climate-related Financial Disclosures (2017). "Annex: Implementing the Recommendations of the TCFD" June 2017.*
[90] *See http://www.ethicalconsumer.org/scoredetails.aspx?ProductId=511288*
[91] *See Admiral submission to CDP from 2013 available at https://www.cdp.net/en*

107. Furthermore, Admiral has previously discussed certain climate change risks in their annual reports. In 2007, they stated that:

> "*The Group has reviewed the risks facing its business operations as a result of climate change. The volume of motor insurance claims for any given portfolio of business is to a large degree dependent upon weather conditions. The risk associated with climate change is the potential change to claims frequency through the impact of more extreme weather patterns. It is virtually impossible to model the potential impact of climate change on claims frequency as the actual climate change induced outcome for the UK is unknown. However, the Group does assess the potential costs associated with a number of disaster scenarios such as a major storm in the South East, major flood on the East Coast, and a complete flooding of the Thames in the London area. The Group maintains sufficient reinsurance cover to provide protection in the event of catastrophes of this nature."*[92]

108. Similar statements appear in their 2008 and 2009 annual reports, but were then omitted from all subsequent annual reports. There have been significant advances in climate science since these statements, including the improved ability to model potential impacts.[93] Despite this, the third-party vendor models used by insurers often do not expressly account for climate change.[94] Accordingly, it is vital that Admiral remains alive to these risks.

109. In its annual report, Admiral also discusses its use of reinsurance to mitigate against natural catastrophe losses. Nevertheless, reinsurers are exposed to substantial climate change risks themselves. Accordingly, climate change itself presents a risk to the counterparty supply chain which must be considered.

110. Finally, Admiral's investment portfolios are likely to be exposed to transition risks. As discussed above, this results in correlated climate risks which may impact both sides of Admiral's balance sheet.[95]

3.2.2 Car Insurance

111. Car insurance is a core business of Admiral accounting for approximately £2.7 billion in revenue and £590 million in net written premiums.[96]

112. In its Annual Report, Admiral acknowledges that:

> *"…2017 was a year with catastrophic losses across the US, with a number of hurricanes hitting the southern coasts. In particular, Hurricane Harvey impacted our Texas customers…hurricane claims did impact our loss ratio by approximately 5 points*."[97]

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[92] *See Admiral's Annual Report from 2007, pg. 39.*
[93] *For example, see Bulletin of the American Meteorological Society (2017). "State of the Climate in 2016 - Special Supplement to the Bulletin of the American Meteorological Society" Vol. 98, No. 8, August 2017*
[94] *See paragraph 101.*
[95] *See paragraphs 44 and 89.*
[96] *Admiral Annual Report (2017), pgs 20 & 26.*
[97] *Admiral Annual Report (2017), pg. 24.*

113. Overall, Admiral retains only 22% of net underwriting exposure for the car business[98]. However in the US, which is expected to suffer from more frequent and severe extreme weather events such as Hurricane Harvey, Admiral retained 33% of the underwriting risk.[99] In other words, Admiral is exposed to greater risk in this region.

114. Admiral may therefore be particularly exposed to natural catastrophes in the United States which are set to increase due to climate change. Hurricane Harvey demonstrated the extent to which these events can have a detrimental impact on business performance. If multiple events were to occur in areas of concentrated business, losses may be higher still.

115. Furthermore, Admiral's core business is in the UK which means that it is vulnerable to the climate risks discussed in section 3.1.1. For instance, climate change could cause UK flood losses to rise by 25-30% over the next 20 years.[100] When one considers that 3 out of 4 cars damaged by flood water are written off[101], this could mean substantial insured losses for Admiral.

116. Admiral may also be impacted by changes in consumer behaviour due to climate change. This risk was identified by Admiral in its CDP report from 2013 where it identified "*changing consumer behaviour*" as a risk driver, stating that "*consumers may switch from cars to public transport or reduce number of vehicles in household*".

3.2.3 Household Insurance

117. Admiral has a growing household insurance business which is exposed to natural catastrophes.[102] This makes it particularly susceptible to the physical climate change risks detailed above.

118. Furthermore, Admiral has little geographical spread to diversify household insurance risk and must rely on reinsurance. As previously discussed, one impact of climate change is that it may exacerbate counterparty risk, which is an important consideration in overall risk management.

119. The household business is exposed at 30% net underwriting risk, which again is higher than the 22% net underwriting exposure for the car business.[103] Accordingly, adverse weather events may have a greater proportionate impact on its household business, a business which is being targeted for expansion.

[98] *Admiral Annual Report (2017), pg. 22.*
[99] *Admiral Annual Report (2017), pg. 27.*
[100] See *https://www.insuranceerm.com/news-comment/climate-change-could-cause-uk-flood-losses-to-rise-by-30.html*
[101] See *https://floodsdestroy.campaign.gov.uk*
[102] *Admiral Annual Report (2017), pg. 33.*
[103] *Admiral Annual Report (2017), pg 23.*

4 The Law

4.1 Disclosure and Transparency Rules

120. The Transparency Directive[104] was issued on 15 December 2004 and revised in 2013. Its purpose is to increase transparency and promote the flow of information to market participants in order to enhance investor protection and market efficiency.

121. According to the preamble, "*the disclosure of accurate, comprehensive and timely information about security issuers builds sustained investor confidence and allows an informed assessment of their business performance assets*."[105]

122. The section of the FCA Handbook which relates to the implementation of the Transparency Directive in the United Kingdom is the Disclosure Guidance and Transparency Rules ("**DTRs**"). The three provisions of the DTRs which are relevant to this Complaint are set out below.

    a. DTR 1A.3.2 R states that "*an issuer must take all reasonable care to ensure that any information it notifies to a [Regulatory Information Service] is not misleading, false or deceptive and does not omit anything likely to affect the import of the information."*

    b. DTR 4.1.5 R states that "*an issuer's financial report must include:… (2) a management report...."*

    c. In turn, DTR 4.1.8 R states that "*the management report must contain: … (2) a description of the* ***principal risks and uncertainties facing the issuer***" (emphasis added).

123. The DTRs do not provide a definition of the term "*principal risks and uncertainties*". However, these requirements appear to be synonymous with section 414C(2)(b) of the Companies Act 2006 which requires companies to disclose "*a description of the principal risks and uncertainties facing the company*" in the "*strategic report*".

124. On that basis, we can look to secondary sources for guidance on the term "*principal risks and uncertainties*". In 2014, the FRC published its Guidance on the Strategic Report ("**FRC Guidance**").

125. This guidance is described by the FRC as being persuasive although not mandatory. As such, the following paragraphs of the FRC Guidance provide an authoritative indication as to what constitutes a principal risk or uncertainty.

    a. Paragraph 5.1 states that "*Information is material if its omission or misrepresentation could influence the economic decisions shareholders take on the basis of the annual report as a whole."*

    b. Paragraph 5.3 states that "*Materiality is an entity-specific aspect of relevance based on the nature or magnitude (or both) of the actual or potential effect of the matter to*

[104] *Directive 2004/109/EC*
[105] *Paragraph (1) of Directive 2004/109/EC*

which the information relates in the context of an entity's annual report. It requires directors to apply judgement based on their assessment of the relative importance of the matter to the entity's development, performance, position or future prospects."

c. Paragraph 5.4 states that: "*Materiality in the context of the strategic report will depend on the nature of the matter and magnitude of its effect, judged in the particular circumstances of the case*."

d. Paragraph 5.7 states that "*the terms 'key' … and 'principal' … refer to facts or circumstances that are (or should be) considered material to a shareholder's understanding of the development, performance, position or future prospects of the business.*"

e. Paragraph 7.24 states that "*The risks and uncertainties included in the strategic report should be limited to those considered by the entity's management to be material to the development, performance, position or future prospects of the entity*."

f. Paragraph 7.25 states that "*Directors should consider the full range of business risks, including both those that are financial in nature and those that are non-financial. Principal risks should be disclosed and described irrespective of how they are classified or whether they result from strategic decisions, operations, organisation or behaviour, or from external factors over which the board may have little or no direct control.*"

126. In light of this guidance, it is ClientEarth's submission that:

a. in order to satisfy DTR 4.1.8 R, the management report must include a description of all the principal risks and uncertainties facing the company;

b. for the purpose of DTR 4.1.8 R, '*principal risks and uncertainties facing the company*' means facts or circumstances that are (or should be) considered material to a shareholder's understanding of the development, performance, position or future prospects of the business;

c. for the purpose of DTR 4.1.8 R, '*material*' facts or circumstances are facts or circumstances which a reasonable director in the position of Admiral's directors would identify and consider could influence the economic decisions shareholders take on the basis of the annual report as a whole.

127. It was shown in section (3) above that climate change-related risks are material to Admiral. Furthermore, a reasonable director of a FTSE 100 insurer should be aware of these risks given that UK financial regulators have repeatedly flagged climate change-related risks since 2015. Accordingly, Admiral must disclose these risks in their annual report.

5 Admiral's Breach of its Legal Duties

5.1.1 Omission of Information

128. The discussion in section (3) of this Complaint made it clear that climate change poses a material risk to the insurance sector. In addition, Admiral's business model comprises numerous elements which are particularly susceptible to climate risks.

129. In accordance with the laws set out in section (4) of this Complaint, Admiral has a legal duty to disclose the principal risks and uncertainties facing its business.

130. Despite this, Admiral makes no reference to climate change in its annual report.

131. Admiral is therefore in breach of DTR 4.1.8 R as it has failed to disclose a principal risk and uncertainty affecting its business. (**Breach 1**)

132. Consequently, Admiral is also in breach of DTR 1A.3.2 R for omitting information which is likely to affect the import of the annual report. (**Breach 2**)

6 Request to the FCA

133. The annual report is a key resource which enables investors to assess the nature and value of a particular business. Admiral's failure to adequately disclose principal climate risks may therefore hamper their investors' ability to make an informed assessment

134. The FCA has the following powers under section 91(1ZA) of the Financial Services and Markets Act 2000 ("**FSMA**"):

> "*If the FCA considers that -*
>
> *(a) an issuer who has requested or approved the admission of a financial instrument to trading on a regulated market,*
>
> *(b) a person discharging managerial responsibilities within such an issuer, or*
>
> *(c) a person connected with such a person discharging managerial responsibilities,*
>
> *has contravened any provision of disclosure rules, it may impose on him a penalty of such amount as it considers appropriate*."

135. Furthermore, the FCA may take the following measures under LR 1.3.2 R of the Listing Rules:

> *(1) "The FCA may, at any time, require an issuer to publish such information in such form and within such time limits as it considers appropriate to protect investors or to ensure the smooth operation of the market. [Note: Article 16.2 CARD]*

(2) *If an issuer fails to comply with a requirement under paragraph (1) the FCA may itself publish the information (after giving the issuer an opportunity to make representations as to why it should not be published). [Note: Article 16.2 CARD*]"

136. In light of the legal breaches detailed above, ClientEarth requests that the FCA:

a. imposes a financial penalty on Admiral in an amount it considers appropriate; and

b. requires Admiral to publish information so as to rectify the above-referenced deficiencies in its annual report.

137. These steps are vital to ensure that investors have adequate information on Admiral's exposure to climate change-related risks. For the reasons given above, it is important that the information in the public domain is both accurate, and legally compliant.

138. In the alternative, ClientEarth requests that the FCA publishes a statement censuring Admiral in accordance with section 91(3) of FSMA.

139. Again, a public statement of this nature would put investors on notice that the information in Admiral's annual report does not adhere to the standards required by law.

140. Please do not hesitate to contact us if we can be of any further assistance in relation to this complaint.

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