

LLOYD'S ESG STANCE & GUIDANCE



In May 2022, Lloyd's released its second ESG report, 17 months after the first. Such a delay is indicative of how fast the ESG landscape is changing, so providing an up-to-date snapshot in time is difficult. It may also be indicative of the scrutiny Lloyd's is under (as are many of their Insureds) and their sensitivity to ensure the correct balance of messaging. Lloyd's ESG strategy framework is guided by the United Nations' Sustainability Development Goals. Our focus here will be on the Environmental portion of ESG.

Lloyd's itself has committed to transitioning all operations, investments and underwriting to net zero by 2050 or sooner. Since Lloyd's is a marketplace, they can set requirements on those who can trade there. That said, Lloyd's has been careful not to dictate or mandate requirements on its member Syndicates that may drive business away and has opted to achieve net zero "through our oversight of the market, working with insurers on their net zero plans."

Steps Lloyd's had taken in 2021 include:

1. Committing to:
 - b. Reduce own operational emissions to net zero by 2025
 - c. Transition GBP3Bn Central Fund investments to net zero by 2050
 - d. Support the Lloyd's market to a net zero underwriting position by 2050
5. Established Lloyd's Environment, Social and Governance Committee
6. Appointed Lloyd's first Sustainability Director
7. Issued Market wide ESG Guidance
8. Require for 2023 and onwards, Syndicate business plans must include a credible pathway to net zero underwriting by 2050
9. Established the Sustainable Markets Initiative Insurance Task Force

Through the Sustainable Markets Initiative Insurance Task Force "Lloyd's expects to implement a 'Sustainability Transparency and Reporting' regime from 2023 onwards. This will allow a market-wide aggregate baseline view of the carbon contribution of underwriting portfolios, thereby enabling the monitoring and reporting of the market's underwriting position."

Lloyd's is also encouraging the market to cease providing new cover for thermal coal-fired plants, thermal coal mines, oil sands and Arctic energy exploration activity on 1st January 2022, and phase out of existing cover by 2030.

New Products

Lloyd's has also committed to innovating new products to support the global transition to net zero. Within this, Lloyd's launched Futureset, a leadership platform, that has identified several goals for 2022, including facilitating product implementation targeted at Electric Vehicles and raising the awareness of the insurance industry in Hydrogen and Carbon Capture & Storage (CCS). Syndicates have also been focused on ESG-friendly risks and Beazley has specifically set up Syndicate 4321 to provide additional insurance capacity for risks that score well based on various ESG metrics including input from S&P IQ, RepRisk and Sustainalytics.

Summary

As can be seen, for Lloyd's, as with most insurers, the Environmental element of ESG strategy is currently focused on emissions in high-profile sectors.

We expect that this will be the driver of ESG-related questions for companies in sectors highlighted as high emitters to start; however, to achieve net zero, all Insureds would have to be net zero unless some form of underwriting offsetting process will be implemented where Syndicates balance their books by insuring net capturers against net emitters. This would lead to preferential terms for accounts of the former and continued detrimental terms and capacity crunches for the latter.

If you have questions specific to your business, or would like additional information, please reach out to an Iridium Risk Advisor.

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1100, Bow Valley Square 3
255 - Fifth Avenue SW
Calgary, AB T2P 3G6
855.585.9654

www.irsnavacord.com
www.navacord.com
info@irsnavacord.com

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