



**Liberty**  
Specialty Markets

# ClimateWise Report

2023



## Managing Climate Risk for Mutual Advantage

As we are going into our fourth year of membership, Liberty Specialty Markets (LSM) is pleased to be a part of ClimateWise, a growing global network of leading insurance companies and industry partners.

ClimateWise remains the leading forum for exchange of ideas around managing climate risk and opportunity in the insurance industry as well as broader ESG issues. The past year has also seen an increased focus on biodiversity and we are pleased to be part of the Nature and Insurance Steering Group which has announced further plans for 2023 around supporting innovation in nature underwriting and financing for 2023.

In this report, we demonstrate how our UK and European businesses respond to the risks and opportunities of climate change. We are in the business of managing risk to advance resiliency – being aware of it, identifying it and creating solutions to mitigate its negative impacts. Rapidly evolving risks and impacts from climate change require us to double our efforts in anticipating our clients' needs. As the world transitions to a low-carbon economy, we are committed to enabling an equitable and responsible transition by helping customers advance their sustainability journeys.

We have used the ClimateWise Principles to structure this report. Where relevant, we cite commitments and activities from Liberty Mutual Insurance Group (LMIG), our parent company, as well as key activities prior to 2022 for context and background. More detail on LMIG's climate change strategy can be found in the [Task Force on Climate-related Financial Disclosures \(TCFD\) report](#).

In 2022 ClimateWise's assessment of our reporting and progress improved significantly. We are also pleased to see that the organisation continues to grow and there is further opportunity to learn from peers about best practice. Climate change is too complex and challenging for any single organisation to tackle alone. We thank ClimateWise for bringing the industry together in the spirit of the multi-stakeholder collaboration that is needed.



**Matthew Moore** President of Underwriting, GRS

**Tom Grace** Interim Head of Sustainability, GRS



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## Overview of our progress

ClimateWise Principles	LSM overview
1. Be accountable	Embedding climate change into all relevant management / governance structures and responsibilities
2. Incorporate climate-related issues into our strategies and investments	Assessing our portfolio against different climate change pathways and setting new policies, such as a responsible business and responsible investment policy
3. Lead in the identification, understanding and management of climate risk	Making significant advancements in our climate risk capabilities through utilisation of data, stress and scenario testing and undertaking a climate risk appetite and materiality assessment
4. Reduce the environmental impact of our business	Measuring, reducing, and disclosing our Scope 1-2 (and some Scope 3) emissions and other environmental impacts; working with our suppliers and engaging our colleagues on environmental impact
5. Inform public policy making	Engaging with global regulators and actively contributing to several collaborative industry initiatives and working groups
6. Support climate awareness amongst our customers/clients	Providing products and services to support a responsible energy transition and build resilience, and communicating our climate strategy through the LMIG TCFD report
7. Enhance reporting	Publishing an annual summary, from 2022, of our climate approach and key activities in the LSM ClimateWise report





## 1. Be Accountable

Liberty Specialty Markets is part of Liberty Mutual Insurance group of entities, a leading global insurer. We provide specialty insurance and reinsurance solutions to customers across the globe. Our principal operating entities in the UK and EU are Liberty Managing Agency Limited (LMAL) and Liberty Mutual Insurance Europe SE (LMIE). LMIG and LSM are acutely aware of the risks posed by climate change.

### Board and Oversight

As a subsidiary of LMIG, LSM has its own governance structure, Senior Leadership Team (SLT) and legal entity boards. LSM and its entities set and execute their own business and climate change strategies, operating within LMIG's entity-wide business strategy, including its climate change strategy and aspirations.

1. LMIG has set out its aspirations to tackle climate change (see [TCFD](#) and [ESG](#) reports) LSM is aligned to these aspirations and is a member of LMIG's ESG and climate governance bodies detailed in its reports, such as representation on the LMIG Climate Council, to help set LMIG's climate change strategy and ensure ClimateWise Principles are considered.
2. *Climate Change* has been included as a standing item on the agenda of LMAL and LMIE's board meetings over the past year and the boards continue to ensure climate change is considered within business strategy.
3. Two of LSM's SLT have been assigned to proactively monitor the output of activities linked to the ClimateWise Principles – one as the named responsible individual for all climate change financial risks and opportunities and for overseeing the climate change risk management process the (**Chief Risk Officer**) and the other as Executive Sponsor of Responsible Business (**General Counsel**).

LSM has actively worked over the prior year to ensure that the Board has more in-depth oversight of climate change and ESG activity taking place across functions within the firm. It is pivotal that the Board is provided with sufficient information to ensure both the continual development of Board members' climate education and awareness and to enable adequate challenge. With climate change incorporated as standing agenda item, there is at least one opportunity per quarter for the full board to have oversight of the incorporate the ClimateWise Principles into business strategy, and climate risks and opportunities, ensuring LSM progresses with its approach to identify, measure, manage, monitor and report climate risks and opportunities.



# 1. Be Accountable (continued)

## LSM Climate and ESG Governance Structure

LSM's entity **Risk Management Committees (RMCs)** are now directly responsible for overseeing all climate risks and reporting these to LSM's entity boards, where appropriate - with information provided by the **Climate Change Forum (CCF)**, other committees and the **Risk Management team**.

Climate risks posed to LSM's invested assets are managed by the **CFO Committee** whilst direct climate risk exposures from LSM's underwriting activities are managed by the **Enterprise Risk Management Committee (ERMC)**. All of these groups have board-level members ensuring further Board-level involvement in the management of climate change risks.

LSM's cross functional forum for the monitoring and discussion of climate change risks, the CCF, continues to drive the enhancement of climate risk management capabilities and includes membership from all the committees detailed above.

The **Figure 1** below illustrates the key groups and governance structure for climate change and broader ESG issues at LSM.

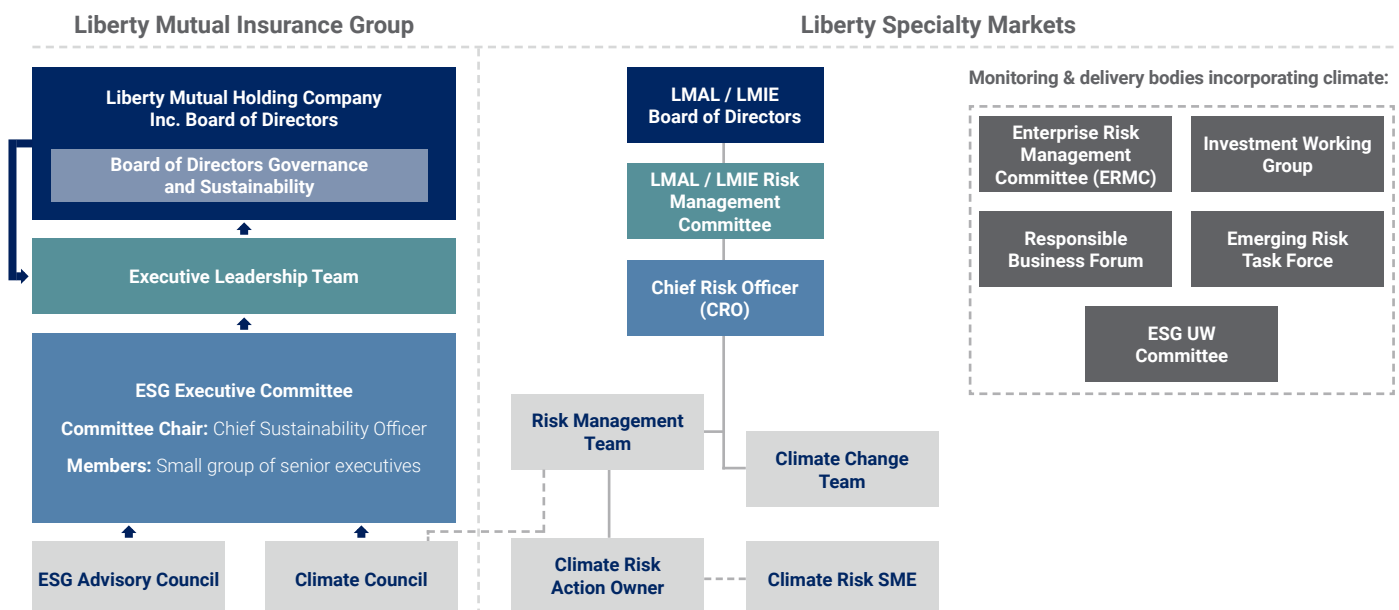


Figure 1: Detail of ESG and climate related monitoring and delivery bodies

### Responsible Business Forum

Sets and delivers LSM's responsible business strategy, inclusive of all environmental risks and opportunities – chair: Head of Sustainability, reports to LSM Executive.

### ESG Underwriting Committee

Responsible for setting LSM's ESG underwriting strategy (to 'accelerate & operationise ESG in underwriting' project), inclusive of environmental risks and opportunities – Chief Underwriting Officer (CUO), reports to LSM Executive.

### Emerging Risks Task Force

Information and ideas sharing platform to recommend management of emerging risks (NB: only captures emerging aspects of climate change risk) CRO, reports to RMC.

### Climate Change Forum

Responsible for identification and oversight of climate change risks and opportunities – CRO, reports to RMC.

### Enterprise Risk Management Committee

Oversight and management of all risks to LSM's underwriting portfolio – including climate change – CRO, reports to RMC.

### Investment Working Group

Oversight and management of all risks related LSM's investments, reports to CFO.



## 2. Incorporate climate-related issues into our strategies and investments

### Implications of climate change for business performance and stakeholders

LSM's approach addresses both the risks and opportunities presented by climate change, while supporting our customers, investors and employees in their efforts to advance and adapt to a low-carbon future.

As a global insurer and investor, we are committed to enabling this transition by providing leading risk advisory services to help customers advance their strategies, insuring and investing in emerging sectors to support "green" growth and striving to become the partner of choice for our brokers and others working to advance the global energy transition.

#### Underwriting

We believe ESG risks bring a change in the nature of risks to which our clients and our portfolio are exposed and LSM's ESG strategy therefore is:

- **Key to how we will support our clients and partners in the future**
- **An increasingly important indicator of the risk quality of insureds**

There is a multi-year journey underway across LMIG's Global Risk Solutions division (GRS), of which LSM is a driving force, to evolve our underwriting practices. This includes how we identify new and evolving ESG risks, embed ESG considerations into underwriting processes and decision-making, and develop methods to measure our progress.

We are focused on ESG through the life cycle of a policy – from the inputs into underwriting (e.g. the data, tools, guidelines and processes to support effective ESG-inclusive risk assessment) through to claims (where LSM has defined climate change and established consistent climate-change related event codes for tracking) and expanding into portfolio measurement

and steering. We are developing measurement tools, baselining, and consistently monitoring our portfolio to better enable us to seize opportunities as well as deepening our risk expertise as it relates to ESG.

This year we are aligning on our GRS-wide narrative on ESG, inclusive of the impacts of climate change. We are also building a programme of ESG training focused on our underwriting and business development communities to establish a baseline of understanding, embed our narrative, and situate ESG and climate in insurance underwriting in practical terms:

- LSM ESG training took place virtually across all our regions Aug-Sep 2022; converted into a video module with all those targeted expected to complete as a requirement
- LSM will be conducting additional climate litigation workshops, focused specifically on those classes of business highlighted to be of greatest risk and including underwriters, over the coming months
- GRS-wide ESG training for the wider community of underwriting and distribution (e.g. 2500-3000 individuals) to late autumn 2022

Additional training, for instance, as part of LSM's newly developed dedicated Underwriting Academy, will be developed in 2023 and beyond.

LSM aims to bring ESG and climate considerations into our risk selection by applying a consistent framework to assess material ESG factors within our underwriting process. We are also evolving our product and risk advisory offering to clients, to better meet their needs related to ESG. **(See Section 6 for more details of products).**

This approach is a natural evolution of our core underwriting philosophy, and it will continue to evolve and be informed by reliable data, technological and regulatory changes, and market forces.







## 2. Incorporate climate-related issues into our strategies and investments (continued)

### Advancing our understanding of climate-related risk to inform our underwriting decisions

#### *Physical risk*

In general, the greatest physical risks posed to insurance underwriting by climate change are the potential for increased frequency and severity of extreme weather-related events, which impact both the magnitude and volatility of losses. In 2021 LMIG identified hurricane, flood and wildfire risk as highly material to its book of business, as well as being scientifically credible, based on near-term climate models. (See Page 9 of [TCFD](#) report)

LSM has a well-established framework for monitoring physical risks within its underwriting portfolio. This is primarily coordinated by LSM's Exposure Management team who carefully monitor our insurance policies and feed relevant information into the LSM ERM Committee on a quarterly basis. Policies are modelled by country and peril, to estimate loss probabilities from a wide range of natural hazards.

Many climate-related hazards, notably perils like flood and wildfire, require more detailed exposure information than traditional catastrophe modelling tools. We are investing in improving our source data to be able to leverage more sophisticated analytics on fast-moving climate hazards.

#### *Transition risk*

In 2021, LMIG looked at the transition risk of climate change through its TCFD report disclosing the potential business, strategic and financial implications of climate-related risks and opportunities over a short-, medium- and long-term time horizon. (See **Section 3** for more details on scenario analysis used).

In order to address these risks, LSM aims to focus on the most material and has the greatest conviction in our ability to support our clients in navigating that risk.

Internally LSM is working to developing a proprietary ESG framework to measure our portfolio and influence risk selection. This includes an internal training component to ensure underwriters develop a good understanding of the importance of ESG integration. There is also a Climate Change/ESG section as part of the annual LSM Underwriting Survey.

#### *Investments*

Liberty Mutual Investments (LMI) believes that ESG performance is often a reflection of broader business practices and can lead to valuable insights that otherwise wouldn't be a part of the traditional investment analysis.

The ESG integration strategy aims to enhance the overall investment process by expanding the information set available to our investment professionals in their daily decision-making.

In line with these core ESG integration principles and our growing commitment to ESG, LMI developed the LMI ESG Framework in 2020 to integrate ESG considerations across our investment portfolio. In accordance with the framework, LMI considers material ESG factors as part of its investment process and day-to-day operations. In particular, across its overall investment research and analysis, LMI prioritises ESG materiality to identify key ESG factors by industry for proposed investments. Their definition of ESG materiality is informed by the Sustainability Accounting Standards Board (SASB) materiality guidelines.



## 2. Incorporate climate-related issues into our strategies and investments (continued)

### Investment at Liberty Specialty Markets

In 2021, the boards of the LSM main risk carriers (LMAL and LMIE) approved a Responsible Investment Policy (RIP) (in supporting documents) which formalises the approach to ESG in investment at LSM. The RIP incorporates our coal policy, which was introduced in 2019 prohibiting new investments in debt or equity securities of companies that generate more than 25% of their revenues from thermal coal mining or utility companies that generate more than 25% of their electricity from thermal coal as well as providing for the phase out coverage of investments for existing risks that exceed this threshold (since 1 January 2022).

In addition to the coal policy, ESG restrictions which explicitly adhere to the minimum Lloyd's requirements have been extended across all LSM investment portfolios; these are listed below.

#### Lloyd's commitment to responsible investment:

- We have phased out new investments in thermal coal-fired power plants, thermal coal mines, oil sands and new Arctic energy exploration activities by the Lloyd's market and the Corporation by 1 January 2022.
- We will phase out existing investments in thermal coal-fired power plants, thermal coal mines, oil sands or new Arctic energy exploration activities by the Lloyd's market and by the Corporation of Lloyd's by the end of 2025. This includes phasing out existing investments in respect of companies with business models which derive at least 30% of their revenues from either thermal coal-fired power plants, thermal coal mines, oil sands or new Arctic energy exploration activities.

## 2. Incorporate climate-related issues into our strategies and investments (continued)

Climate change risks arise from the potential impacts associated with an increase in global average temperatures, measured against pre-industrial levels. The risks have the potential to manifest in three distinctive forms: physical risks, transitional risks and litigation risks.

- Physical risks result from the impacts of increasingly frequent and severe extreme weather events and longer-term shifts in climatic conditions.
- Transition risks arise from global and local economic transitions to carbon neutrality, which are likely to include large-scale market, technological and policy changes.
- Litigation risks stem from parties seeking legal redress against those deemed to be responsible for the impacts of physical and transitional risks.

### Risk Management

Details of all climate risk-specific information, inclusive of underwriting, investments and operations, is captured by our Risk Management team and reported to key decision makers, and LMAL and LMIE's Risk Management Committees, through a Climate Change Risk dashboard which is updated on a quarterly basis. This allows for effective monitoring and management of significant climate change risks to LSM. This dashboard includes metrics analysing different risk areas within LSM, monitoring these against specific management information. (Dashboard in supporting documents).

### Industry collaboration and strategic partnerships

In 2021, we actively engaged with stakeholders across industries in such groups as the Partnership for Carbon Accounting Financials (PCAF), UN-backed Principles for Responsible Investment (PRI), the National Oceanic and Atmospheric Administration (NOAA), academic institutions and more, to continue developing expertise in this area.

In addition, we are participated in the feasibility assessment of the **Lloyd's Net Zero Underwriting Toolkit**, which the industry can apply to their underwriting portfolios. This will improve understanding of the climate impact of an insurance policy and support more sustainable underwriting portfolio decisions.

LSM is also one of a very few insurance firms to commit to Willis Towers Watson's Climate Transition Pathway (CTP) project which aims to provide insurance capacity to firms which have been independently assessed to have climate transition strategies aligned with the Paris Accord. This is the best practice industry accreditation model to help companies transition to a low carbon economy. Companies achieving accreditation will have the opportunity to access insurance capacity and capital to support their orderly transition and help them meet their low-carbon commitments.

Further information about industry collaborations can be found in **Section 5**.







### 3. Lead in the identification, understanding and management of climate risk

#### **Incorporate the material outcomes of climate risk scenarios into business decision making**

LSM recognises the pivotal importance of considering climate-related scenarios, to incorporate physical, transition and liability risks into business planning. We believe climate-related scenario analysis should be used to assess and disclose potential business, strategic, and financial implications of climate-related risks and opportunities over a short-, medium- and long-term time horizon. LSM use the Central Banks and Supervisors Network for Greening the Financial System (NGFS) scenarios while acknowledging that there is no universal approach to this exercise and there are fundamental gaps in the data and models available to pursue this analysis.

#### **Scenario Analysis**

LSM also includes climate change scenarios within the ORSA as set out by the PRA. The assessment approach has increased in detail this year, building upon risk assessment work performed throughout 2021 and the methodology developed in completion of the Bank of England's Climate Biennial Exploratory Scenario (CBES) stress testing exercise.

#### **Own Risk and Solvency Assessment (ORSA)**

The impacts of climate change are assessed under three separate climate pathways:

- Early Action (Net Zero by 2050):
- Late Action (Disorderly transition)
- No Additional Action (Current policies)



### 3. Lead in the identification, understanding and management of climate risk *(continued)*

The results of scenario analysis have impacted key decision making within the firm and have enabled LSM to consider how strategies might change to address future risks and opportunities.

LSM has developed a specific Climate Change Risk Strategy covering a variety of business functions to include Risk Management, Underwriting, Investments, Operations, Exposure Management and Claims (coordinated centrally), as a means to support this aim and to ensure that targeted actions are being taken across the firm.

#### **Overview of how scenario analysis has impacted specific actions within the Underwriting and Investment functions:**

##### *Underwriting*

On an annual basis LSM reviews all underwriting classes of business and assigns each a RAG rating based upon potential risks. Results of ORSA scenarios also highlight the potential exposures within LSM's underwriting portfolio to the physical, transition and litigation risks posed by climate change.

LSM has been focusing on steering its portfolio to become not only more resilient to the now recognised and acknowledged potential impacts of climate change but also to take advantage of the opportunities which may be presented. This strategy focuses on engaging with the low carbon economic transition by providing greater underwriting capacity to initiatives assessed as being a net-contributor to this journey.

##### **Support research and development to inform current business strategies**

LSM recognises the enormous role for the energy sector in global Greenhouse Gas (GHG) emissions reduction and the significant volume of capital that will be required to enable a transition to green energy. There is a need to take a long-term, pragmatic view that considers the resiliency of its clients in terms of 1) mitigation of climate risks, 2) adaptation to those risks and 3) insurance accessibility.

##### *Opportunities*

LSM has also steered a number of other core lines to ensure they are more aligned to support the economic transition and providing increased cover to policyholders most at risk from the changing weather patterns climate change is likely to bring. (See **Section 6** for more details).

LSM's agricultural parametric insurance has grown in the past years, in both size and the products offered, and aims to provide climate resilience solutions to those who may not otherwise be able to source insurance. LSM's parametric insurance offers cover against a number of climate impacted perils in at-risk regions, including tropical cyclones, snow, frost, wildfire and hail. Products are also offered to a number of industries pivotal to supporting the climate transition; such as solar and wind farms.

#### *Case Study:*

In 2021 LSM participated in providing capacity for a parametric hurricane cover in Belize. This "catastrophe risk wrapper", formed an important part of an innovative approach to sovereign debt restructuring tied to support and funding for marine conservation being led by the NatureVest unit of The Nature Conservancy. The loan structure incorporated the world's first commercial sovereign debt catastrophe insurance cover.

The Belize economy is highly exposed to economic slowdown and reduced government revenues resulting from hurricanes and large storms. The parametric insurance policy provides coverage for a Blue Loan debt payment (coupon and principal) following an eligible hurricane event in Belize.

The payment can be triggered in several ways: 1) based on the intensity of the hurricane (minimum of Category 3) and proximity to economic hubs—meaning larger storms can be further away and still trigger payment; 2) the occurrence of two hurricanes of any intensity in the same 12-month period; or, 3) a hurricane of any intensity accompanied by very heavy rainfall.

Willis Towers Watson had structured the product with a financed budget to purchase a CAT cover. As the project was backed by donors, they could not bear additional premium based on market conditions and so insurance companies were asked to consider the placement with lower margin compared to private policies.

### 3. Lead in the identification, understanding and management of climate risk *(continued)*

LSM's underwriting teams have been working with expert third parties to develop a detailed understanding of climate transition risks to our underwriting portfolio – for instance, through an initial model to measure emissions from sections of our energy portfolio. We learned a lot from the exercise and are now incorporating learnings from two different frameworks:

- Insights from our participation in the feasibility assessment of the Lloyd's Net Zero Underwriting Toolkit
- Insights from testing the methodologies in the PCAF standard across Liberty Mutual, inclusive of selected portions of GRS' and LSM's portfolios

The results of these assessments will be used to help shape LSM's approach to facilitating a transition to a low carbon economy.

We are also actively exploring additional climate-related areas:

- Voluntary carbon markets: LMIG's Corporate Strategy & Research team undertook a rigorous assessment of the voluntary carbon markets from all angles of the business to inform if/how we might have a greater role to play through our GRS business.
- Nature: We believe that climate change is inextricably related to broader forces and impacts in nature. As active members of ClimateWise, we also took part in the sub-group to support the development of the forthcoming paper 'Why nature matters: Nature-related risks and opportunities for insurance underwriting'.

Further to this, LSM is looking at new products that could help LSM's clients, and society more generally, adapt to and mitigate climate change-related impacts.

#### Advancing customer ESG adoption

LMIG is working with brokers to help our customers along their ESG journeys. Our collaboration with Marsh and WTW shows some of the ways we're doing this (see further details in **Section 6.1**).





## 4. Reduce the environmental impact of our business

### Working with Suppliers

LSM's ['Supplier Code of Conduct'](#) reinforces our values and illustrates our expectations of suppliers. We define "Suppliers" as contractors, consultants, agencies, vendors and any third parties that are held to the same expectations.

LSM has, in 2022, focused on ensuring it has a sustainable supply chain. In the first half of the year, we distributed a questionnaire to our most material suppliers (above £250k spend) to ensure they are aware and have accepted our Modern Slavery Policy and Code of Conduct. As we also look to gain a better understanding of our supply chain and to measure progress achieved, we will also be surveying this group of suppliers with more detailed questions around their ESG approach.

In addition, the LSM Code of Conduct and Modern Slavery Policy is now included in any RFP put out to a new suppliers and new contracts.

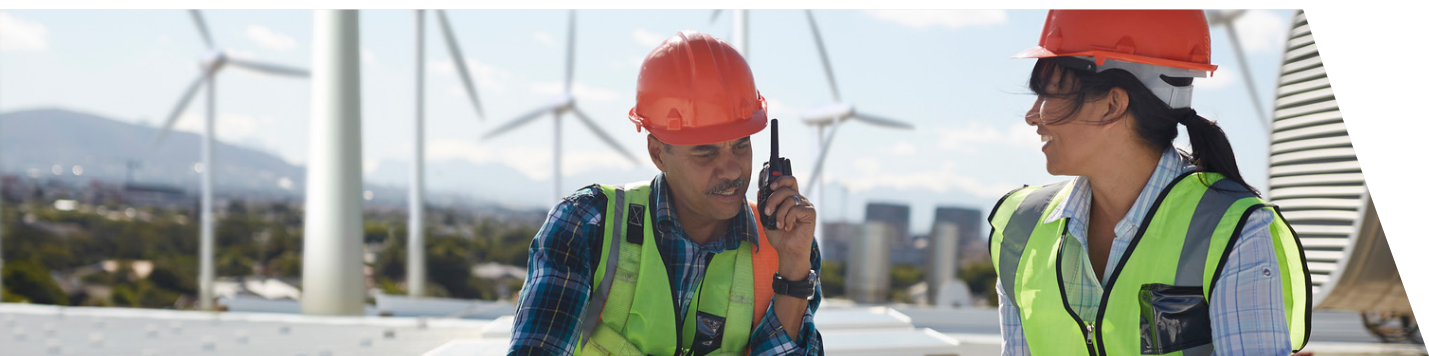
### Disclosing Emissions

In June 2022 a net zero target by 2050 was announced for UK operations. The commitment is a key part of LSM's responsible business strategy, it also ensures compliance with the UK government's net zero plan that requires any company supporting a UK government agency (above a certain contract value) to make and work toward a net zero by 2050 commitment for its UK operations (see Net Zero Plan in supporting documents).

### Initiatives towards achieving net zero

We expect to make steady progress to achieving the target, including refining and expanding our data collection, and updating our plan year-on-year. This will largely cover the below points:

- Reduce remaining emissions in buildings and facilities (scope 1 and 2 emissions)
- Reduce business travel emissions (scope 3 emissions)
- Expand the data collection to cover categories such as employee commuting, goods and services and waste
- Improved data collection





## 4. Reduce the environmental impact of our business (continued)

### UK Baseline Emissions Footprint

Baseline emissions are a record of the greenhouse gases that have been produced in the past and were produced prior to the introduction of any strategies to reduce emissions. Baseline emissions are the reference point against which emissions reduction can be measured.

### Current Emissions Footprint

#### Reporting Year: 2021

EMISSIONS	TOTAL (tCO <sub>2</sub> e)
Scope 1	383
Scope 2	160 (market based) 544 (location based)
Scope 3 Included sources	170 (air, rail and car travel, and hotel stays for UK employees*)
<b>Total Emissions</b>	<b>1,257</b>

#### Reporting Year: 2022

EMISSIONS	TOTAL (tCO <sub>2</sub> e)
Scope 1	182
Scope 2	50 (market based) 385 (location based)
Scope 3 Included sources	4,049 (air, rail and car travel, and hotel stays for UK employees*)
<b>Total Emissions</b>	<b>4,666</b>

\* We expect scope 3 emissions to rise in subsequent years as we complete data collection and analysis for categories in scope as we return to some business practices, e.g., business travel, post pandemic.

### The following environmental management measures and projects have been implemented since the baseline data was collected in 2019:

- We have raised the current set point temperature from 21 degrees Celsius to 23 degrees Celsius as a maximum in our IT rooms, which saves energy without affecting our IT equipment.
- Travel – We are encouraging our colleagues to travel less by: Making lower carbon alternative(s) available for their requested journey. These may be a different mode of transport, a different class of travel, or a different flight. We ask colleagues to do their best to choose these.

Requesting additional information as to why the lower carbon travel option is chosen (or not), in order to better understand behaviours we need to consider in our policies.

We are also offsetting the carbon footprint of our business travel with high-quality offsets provided through **Climate Impact Partners**. We started this retrospectively from 1 January 2021 onward.



## 4. Reduce the environmental impact of our business (continued)

### Engaging our employees on climate change

As part of LSM's strategy to become a responsible business and embed our commitment to a low-carbon future across the business, we ran a series of events over 2021 into the first of half of 2022 to engage and educate colleagues.

- Climate & water webinar with Wateraid (Oct 2021)
- Implications of COP26 with LSM and GRS (Dec 2021)
- 'What is responsible business & ESG' - set of three sessions covering all regions and about 20% voluntary participation across all of LSM employees live (Feb 2022) (see presentation in supporting documents)
- Climate & carbon offsetting (June 2022)
- Regular (nearly monthly) 'Responsible Business Blog' shared with entire company
- Responsible Business Community, launched in January 2022, this community is open to anyone at LSM who is interested in responsible business, sustainability and ESG themes and wants learn more on the subjects and share with their relevant offices. Subjects to be covered in 2022 include LSM's environmental impact and how we can improve it.

### Case Study:

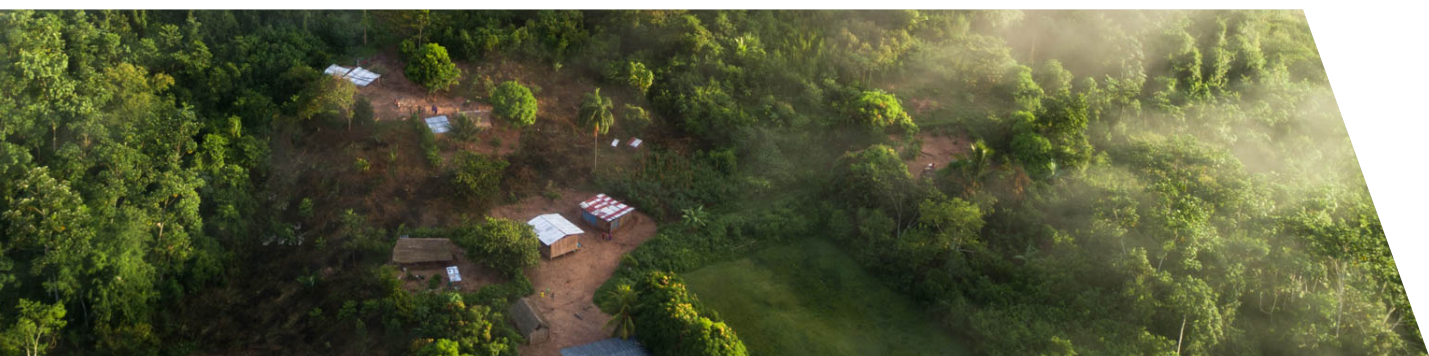
As part of LSM's three-year global charity partnership initiative, we decided to align the aims of the business with regards to climate change to our charity choice. There was a staff vote which resulted in the selection of two charities.

**Cool Earth** backs people in the Amazon, New Guinea and Congo rainforests to protect the forests and fight the climate crisis. The idea is simple and aims at providing money to people living in rainforests to ease the social and climate pressures which can lead to deforestation. Forests need to be kept as carbon-rich as possible to avoid intensifying climate change, and destroying important biodiversity.

**ShelterBox** comes in after the crisis. They provide shelter, essential items and technical assistance to help some of the world's most vulnerable people recover and rebuild their homes after disaster. The organisation listen and adapt support to the needs of each community, working together with those affected by disaster, alongside our supporters and partners.

**COOL  
EARTH**

 **ShelterBox**





## 5. Inform public policy making

As a leading mutual in the insurance sector, it is important that LMIG and LSM collaborate with the insurance and wider financial services sector on the issue of climate change.

For more than 100 years we've cultivated deep expertise helping policyholders manage various risks, including climate impacts – and we believe it is our responsibility to share this knowledge and participate in critical conversations to encourage real, sustainable change.

With this in mind, in April 2022 the Liberty Mutual Climate Transition Center was established. This will focus on four key areas: continuing the development of data and technical capabilities to improve understanding of physical climate risk; researching and creating thought leadership around climate transition risk; promoting the need for increased resiliency to mitigate risk and protect communities; and supporting innovation through strategic opportunities and/or investments to expedite action.

Over the last two years LSM, and wider LMIG, has also been more active in responding to relevant regulatory requirements and consultations including EIOPA on ORSA and Institute of International Finance (IIF) in 2021 and 2022.

LSM has increased its engagement in industry and public debate on these issues over the past year with active involvement in the following groups:

- Our Chief Risk Officer is a member of the Climate Financial Risk Forum – Scenario Working Group
- We are a member of ClimateWise and our Head of Sustainability sits on the Managing Committee
- Our President is Deputy Chair and a member of the board of International Underwriting Association; our Head of Sustainability also sits on the newly formed ESG Committee

- GRS President of Underwriting is a member of the Board of the Lloyd's Market Association; our Head of Sustainability also sits on the Sustainability Committee
- GRS President of Underwriting is Chair of the London Market Group
- GRS President of Underwriting is on the Board of Pool Re
- LSM is a member of the Westminster Energy Forum

LSM also benefits from LMIG membership and participation in:

- United Nations Global Compact
- United Nations-supported Principles for Responsible Investment (PRI)
- Partnership for Carbon Accounting Financials (PCAF) – we are active participants and sub-working group leads of the insurance industry working group
- Taskforce on Nature-related Finance Disclosures (TNFD)
- FCLT Global (Focusing Capital on the Long Term)
- Ceres Company Network
- IIF Sustainable Finance Policy Expert Group
- National Association of Mutual Insurance Companies (NAMIC)
- Force for Good





## 6. Support climate awareness amongst our customers/clients

In 2021 and into 2022, LSM developed its approach, consistent with LMIG's strategic pillars, to acting as a responsible business and high performing financial services company of the future.

Our multi-year ESG ambition is to advance resilience and inclusive growth by focusing on:

- Increasing client resilience: helping clients to adapt and mitigate risks affecting their lives;
  - Proactively bringing ESG and climate to our clients and prospective clients through dedicated materials elaborating on our strategy, ambition and progress;
- Enabling sustainable growth: supporting an equitable and responsible climate transition;
  - Integrating ESG into LSM's day to day decision making which has been further backed up by, for example, the first ClimateWise reporting being translated in Brazil to serve the local market;
- Improving lives and communities; and
- Advancing diversity, equity and inclusion.

### *Case Study: Climate Transition Pathways*

As part of how we approach responsible business, we strive to partner with and support customers that are also committed to advancing ESG practices. We recognize that companies are at varying points in their sustainability journeys. Our goal is to support them along that journey with products, services, and innovative solutions.

To support this approach, LSM are the first major insurer to support the Climate Transition Pathways (CTP) solution, an accreditation framework developed by WTW that gives insurance companies and financial institutions a consistent approach to identify businesses with robust low-carbon transition plans aligned with the Paris Agreement.

On 20 July 2022, the first CTP accredited company was announced: Danish energy firm Ørsted. LSM will quote a \$50M line on any current Property Damage and Business Interruption placement for Ørsted and future CTP-accredited companies.

### *Case Study: Marsh Risk Rating*

The ESG Risk Rating, an assessment that measures clients' ESG performance, enables them to improve their ESG risks, and gain access to additional insurance market capacity.

Measuring against 22 internationally recognized standards and frameworks – including the TCFD, the International Organization for Standardization, and the European Union Taxonomy for Sustainable Activities – the ESG Risk Rating scores a client's performance across 18 ESG themes. On completion of the free assessment, clients receive an overall ESG risk score out of 10, as well as a risk rating for each ESG component.

Clients can use the results to identify their most critical sustainability- and climate-related risks and opportunities, and work with Marsh's advisors to further develop their ESG strategies. They can also choose to share that output with stakeholders many of whom are becoming increasingly inquisitive and concerned about ESG risks.

LMIG offers this to its clients in the US and Canada who opt-in to Marsh's ESG Risk Rating complimentary access to risk advisory services relating to sustainability- and climate-related risks and opportunities. This arrangement is in mutual recognition of the importance of ESG and LMIG's commitment to help clients advance their sustainability journeys.

## 6. Support climate awareness amongst our customers/clients

(continued)

We recognise that clients are at varying points in their sustainability journeys. As a mutual organisation we take a long-term view. Our goal is to develop strong partnerships to support them along that journey with products, services, and innovative solutions. We take a broad view and seek to understand and mitigate their inherent and emerging risks. We will accelerate ESG progress by raising awareness and applying our renowned risk control services and risk engineering capabilities to those risks.

We are also bringing ESG considerations into our risk selection, applying a consistent framework to assess material ESG factors within our underwriting process. This approach is a natural evolution of our core underwriting philosophy, and it will continue to be informed by reliable data, technological and regulatory changes, and market forces.

- We mitigate natural disaster and climate-related risk, transition risks towards a lower carbon economy, and support climate adaptation
- We enable a responsible transition – from who we serve to the mutual advantage we offer, including transition finance
- We support green growth – our energy book supports alternative and traditional energies
- Financial Risk Solutions supports project financing transactions for banks which are having a real impact on global economic development and sustainable infrastructure investments
- We are exploring how our wordings and claims can support 'green upgrades' to build back better than before

### *Case Study: Green and blue hydrogen*

In the world's first insurance and reinsurance facility of its kind, LSM partnered with Marsh and AIG to provide up to \$300 million capacity for green and blue hydrogen energy projects. The facility covers construction and operational phase property damage risks, as well as marine cargo, business interruption, general third-party liability, and contingent delay-in-start up.

Burning hydrogen to produce energy – with water as the only by-product – is one pathway to reducing carbon emissions in industrial processes and heavy transportation. Producing hydrogen is commonly done through electrolysis, whereby electricity is passed through a substance such as water to split it into hydrogen and oxygen. Green hydrogen is produced when electrolysis is powered by wind, water or solar. Blue hydrogen is produced through steam methane reforming, a process in which natural gas is mixed with steam and a catalyst.

"The demand for energy diversification projects is accelerating rapidly. This facility helps meet the energy transition needs of our brokers and customers and aligns with our mission to play a key role in the future of energy across the globe," said Mike Gosselin, Global Leader, Energy & Transition Risk GRS Office of Underwriting, who is currently building out the GRS Office of Sustainability, which will further expand our work in the Environmental, Social and Governance space.







## 6. Support climate awareness amongst our customers/clients

(continued)

### *Case Study: Evolving energy sources – Construction*

#### Overview

In addition to the traditional Renewable Energy sectors, we also provide Construction/Erection all Risks (EAR), Primary Liability and Delay in Start-Up coverage for other evolving technologies in the Energy Transition sector. This includes nuclear fusion (Tokamak) and Hydrogen.

#### Sustainable solutions

The future energy demand will be met by a mix of sustainable sources, some of which are already viable and others are still in development. Our solutions can support research projects, small-scale trial projects, as well as full-scale commercially viable enterprises. We deploy our in-house risk engineers, supported by third party experts, to understand the risks associated with these emerging technologies. Our aim is to provide appropriate solutions to our clients working in these areas and support the development and growth of important new sustainable energy sources.

#### Supporting our clients

Firstly, in partnership with a key broker, we have developed a facility to provide effective insurance solutions to clients expanding into the Hydrogen sector. This includes an appropriate proposal form that addresses the key technical areas that we need to understand. The facility provides an appropriate level of risk transfer coupled with secure capacity and all delivered in an efficient manner.

Secondly, we have supported the development of the nuclear fusion industry by providing coverage to research and developmental facilities in Europe and US. This technology is approaching technical reality and could become an important source of clean, renewable energy within this decade. We intend to continue to support this technological evolution.





## 6. Support climate awareness amongst our customers/clients

(continued)

### *Case Study: Financial Risk Solutions: credit and political risk insurance to aid the energy transition*

#### Product overview

Our Financial Risk Solutions (FRS) team provides credit and political risk insurance to help clients around the world mitigate risks related to non-payment and non-performance of private and public sector counterparties. We also cover political perils such as expropriation or confiscation of assets by foreign governments, export embargo, forced abandonment and war.

#### Sustainable solutions

By underwriting project finance risks for key commercial bank clients, we are having a positive impact on global economic development and helping to finance sustainable infrastructure investments. This includes providing credit insurance to support onshore and offshore wind farms and solar projects in developed and emerging markets.

In 2016 we launched the Public Agency Initiative to provide insurance capacity to multilateral development banks, development finance institutions and export credit agencies to carry out their economic development and sustainability mandates. Since then we have supported numerous sustainable development projects, including the financing of new hospitals, a water project to deliver clean drinking water, and the expansion of finance for women-led businesses.

#### Supporting our clients

As part of the Public Agency Initiative, we have partnered with the International Finance Corporation (IFC) in two unfunded risk sharing programs supporting IFCs lending to financial institutions, a significant amount of which is directed to climate related businesses.

In the first risk sharing program signed in 2017, approximately 47 percent (\$239 million) of Liberty's total participation (\$505 million) was used for climate related activities (climate mitigation, climate adaptation and/or special climate activities).

Two examples of projects supported by FRS include:

- The IFC provided a senior loan of \$200 million to an African bank to help develop its climate finance platform to on-lend to renewable energy projects and contribute to expanding the bank's climate strategy.
- The IFC supports a South American bank with a senior loan of \$80 million to support the growth of lending to Small and Medium Sized Enterprises (SMEs) and helping these businesses to reduce their greenhouse gas emissions through the implementation of climate smart practices and equipment.





## 7. Enhance reporting

Submission against the ClimateWise Principles.

LSM published its first report against the ClimateWise Principles in a dedicated report in April 2022 and incorporated summaries within its 2021 reports and accounts for LMAL and LMIE entities covered in this submission. The LMAL and LMIE boards are responsible for considering the level of information to be included in our external disclosures.