
Sustainability Report



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Letter from the CEO

The impact of change on our planet and its people has rarely been clearer than in the last couple years. Things, once thought remote in time or likelihood, happened, requiring overnight reaction from society and our industry. As the way we work differently and think differently in their aftermath, we are reminded of the consistent uncertainties we face and our need to deliver sustainability to all our stakeholders, most particularly those who rely on us in their time of need.

The challenges of today play out across all dimensions from economic uncertainty to political turmoil to the existential environmental challenges posed by climate change.

But, with great problems come great opportunities.

In this world of increasing volatility and perpetual change, we believe that now, more than ever, companies have an opportunity, and indeed a responsibility, to stand for something more than just generating profits.

At Chaucer, we believe we have a pivotal role to play in the sustainability transition, for both people and planet. And we have already begun to make advances across both these dimensions.

This report summarises where we are and what we have done so far in our ESG journey. It outlines our vision of where we want to go and how we can be held accountable along the way.

We are committed to embedding Environmental, Social and Governance ethics into all our decision making across our entire business. We truly believe this is some of the most important work we do. We are determined to deliver, and help our customers and partners deliver, real change.

John Fowle

Chief Executive Officer, Chaucer Group



‘At Chaucer, we believe we have a pivotal role to play in the sustainability transition, for both people and planet.’



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Introduction



What is ESG?

ESG is the use of Environmental, Social and Governance metrics in the decision making process, whether that concerns investment, partnership or other matters. Although forms of ESG have been around since the 1970s, in its modern form, ESG first appeared in the 2000s. Over the last decade, it has become an increasingly important consideration for most companies. Even so, ESG means different things to different organisations.

At Chaucer, we define it as

‘the consideration of environmental, social and governance factors in the decision making process.’

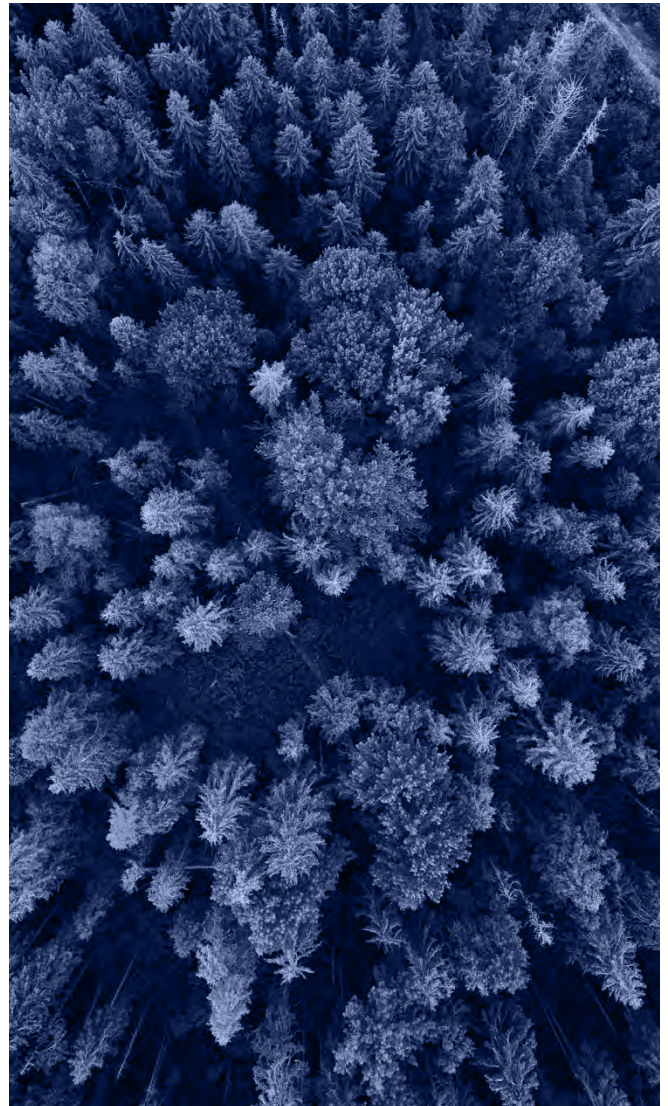
Why is it important?

Companies need to stand for something more than just generating profits. In recent years, stakeholders ranging from governments and investors to employees and consumers have increasingly demanded that businesses have high ethical standards and are run sustainably. For nearly every company, this is very much a journey, and we believe that, as an industry and a company, we have a duty to ensure and enable a sustainable transition.

ESG also makes commercial sense. There is a wealth of research to support the thesis that companies with high ESG scores tend to perform better than those with lower ESG scores. Companies with better scores tend to be managed well, they often find access to capital easier and other companies are more willing to do business with them, not least because their own ESG strategies demand they vet suppliers. Many would argue that such businesses are also safer long-term investments. Because they are well run, they are less prone to risks such as falling foul of legislative changes and being caught up in scandals.

For many companies, developing an ESG strategy is also a mechanism to formalise many pre-existing policies and processes, fill gaps in and bring everything together under one holistic umbrella. At Chaucer, many of the constituent parts of our ESG policy existed prior to our ESG-specific work. For example, most of our risk assessment and decision making processes across the business, including Underwriting, Risk, Operations, Claims, Procurement, and Investment already included some elements of ESG assessment. Thus, developing a Group-level strategy and approach largely formalises and ensures consistency across processes that are, to varying extents, already in place.

We believe that ESG strategies have two basic components. These are the company's own view of ESG (the level of proprietary thought and analysis) and the level of adoption and integration across the business. Taken together, these reflect the company's commitment to ESG.



Chaucer's ESG Strategy



Although we have been on our ESG journey for quite some time, this report provides an overview of where we are, where we'd like to get to, and our proposed roadmap for achieving this.

Vision

Across the Chaucer Group, we want to think and act in a way that makes a genuine impact - and that supports the transition to real sustainability for both us and our partners. We want to embed ESG ethics in everything we do.

Mission

Our mission starts with recognising that sustainability is the key to success and also our long-term relationships with our stakeholders. We take sustainability seriously because it is a business imperative and is going to become more, not less, important in the future.

We recognise we need to ensure

Strong Environmental, Social and Governance (ESG) principles are at the centre of our decision making. They must become a part of business as usual.

We understand the ESG risks and impacts associated with our underwriting, investments, risk management and operations. However, we need to make it clear to everyone what these involve and also highlight the areas in which we may need to do some work. We also want to make it very clear that responsibility for this lies with senior management in these areas.

Finally, we need to communicate all this and ensure our stakeholders, both internal and external, are updated on our journey to become a more sustainable business and partner.



Principles

Both our Mission and Vision are based on six principles.



Alignment with UN Sustainable Development Goals

We will use the UN's 17 Sustainable Development Goals as our bedrock – all ESG initiatives should map back to at least one of these goals. This will highlight what we are doing well and where our gaps are. We can then assess whether we are happy with those gaps or put in place measures to address them.



Be a leader in the ESG space

We are committed to building and evolving our own proprietary view of ESG and embedding ESG into the core of our business. We strive to be at or near the top of our peer group.



Genuine and consistent with our brand

We are pragmatic problem solvers and are authentic and transparent in the way we run and grow our business. Our ESG metrics, methodology and integration into our business should reflect this.



Take a balanced scorecard approach to analysis and decision making

We holistically evaluate decisions with a balanced scorecard approach.



Here to work with our customers and partners who genuinely want to improve

We will comply with our regulators' guidance and exclude activities or industries from our portfolio in line with regulatory guidance. We are committed to working with our clients and believe that we can help our customers progress along their own ESG journeys. We are here for our clients as enablers in their transition.



The E, S and G are equally important, however the E is being prioritised in the short term

While each of the three ESG pillars are equally important, from a prioritisation perspective, there are quick wins to be had and there is more external pressure within the Environmental space. Hence, we should prioritise gains within the Environment space in the short term while continuing to progress our knowledge of and actions within the Social space. From a Governance perspective, we will maintain our current above average performance and continue to look for opportunities to improve.

Our strategy

To truly embed our vision, we have defined six workstreams. These are Investments, Marketing, Underwriting, Operations, Risk and Governance and they represent our six core functions. We have tasked each of these workstreams with embedding our ESG vision, mission and principles into their decision making processes. Because all the workstreams perform different functions, we have given each of them a different Purpose, a different 2022 Focus and a different set of 2022 Objectives. The goal is the same, but the paths and priorities for each will be different.

Chaucer ESG Strategy on a page

Vision / Mission / Principles: Our end goal is to embed ESG ethics in everything we do					
Underpinned by Six Workstreams					
Investments	Marketing	Underwriting	Operations	Governance	Risk
<p>Purpose: Increase and maximise investment return through the inclusion of Group ESG approach into the decision making process</p> <hr/> <p>2022 Focus: Re-align existing methodology and metrics to Chaucer Group's ESG approach</p> <hr/> <p>2022 Objectives:</p> <ul style="list-style-type: none"> • Transition ESG metrics from existing to Chaucer's Balanced Scorecard • Transition ESG targets to be consistent with Chaucer's approach 	<p>Purpose: Communicate our ESG story and strategy to all stakeholders external and internal</p> <hr/> <p>2022 Focus: Building the foundations and building blocks of the core messages across each of the key audiences</p> <hr/> <p>2022 Objectives:</p> <ul style="list-style-type: none"> • Vision statement approved • ESG communications framework and messaging approved for key audiences • Joint marketing plan agreed and implemented with Moody's 	<p>Purpose: Embed Chaucer's ESG approach into the underwriting decision making process to drive Chaucer's competitive position</p> <hr/> <p>2022 Focus: Developing the ESG target operating model</p> <hr/> <p>2022 Objectives:</p> <ul style="list-style-type: none"> • Embed the balanced scorecard • Obtain ESG scores for entire portfolio • Data gap analysis • Set out targets for improvement • Finalise target operating model 	<p>Purpose: Embed Chaucer's ESG approach and targets into our internal operations and supplier network</p> <hr/> <p>2022 Focus: Embed the Chaucer ESG approach into our operating model and supplier due diligence process and assess carbon footprint and lay out plans to achieve environmental objectives</p> <hr/> <p>2022 Objectives:</p> <ul style="list-style-type: none"> • Embed scorecard into supplier management • Assess carbon footprint • Design plans to achieve carbon targets 	<p>Purpose: Embedding ESG into our existing governance processes</p> <hr/> <p>2022 Focus: Set the foundations</p> <hr/> <p>2022 Objectives:</p> <ul style="list-style-type: none"> • Embed ESG into the business • Obtain Chaucer ESG Rating • Develop governance of ESG processes • Regulatory requirements research 	<p>Purpose: Embedding ESG into existing risk management framework</p> <hr/> <p>2022 Focus: Maintain a second line of defence oversight on the ESG risks as they evolve</p> <hr/> <p>2022 Objectives:</p> <ul style="list-style-type: none"> • ESG risk assessments • ESG risk narrative of financial disclosure • Integration with ERM framework • Implement target operating model

Investments

Our investment portfolio began its ESG journey in 2018. The investment team defined a number of variables against which to assess our portfolio. These variables were reflective of the data available at the time along with the maturity of thought with respect to ESG criteria. We then scored our investment portfolio against these variables. This methodology ultimately became the basis for the design principles behind and methodology for the design of our balanced scorecard.

The purpose of the investment workstream is to increase and maximise our investment return via the inclusion of the Group ESG approach in the decision-making process. Building on existing work, the current focus for this workstream is to re-align the existing methodology and metrics to Chaucer Group's ESG approach.

Marketing

We need to communicate our ESG strategy and narrative to all our stakeholders, both internal and external. This means building the foundations of our core messages across our key audiences. We will also hold ourselves accountable by committing to annual updates of our strategy, plans and progress.

Underwriting

The goal here is to embed Chaucer's ESG approach into the underwriting decision-making process. In 2022, we plan to:

- Develop our ESG target operating model
- Embed the balanced scorecard
- Obtain ESG scores for our entire portfolio
- Conduct data gap analysis
- Set targets for improvement.

Operations

The purpose of our operations workstream is to build the ESG approach into both our internal operations and our external supplier network. Among other initiatives, we will embed our balanced scorecard into our supplier due diligence process, assess our carbon footprint and set out plans to achieve our environmental objectives and become carbon neutral across our operations by 2030 or sooner.

Governance

The purpose of this workstream is to embed our ESG approach into our existing governance processes. This year we will obtain Chaucer's ESG rating from external rating agencies in addition to measuring ourselves against our own balanced scorecard. We will develop governance processes and complete all regulatory requirements and obligations. These will form the foundations of our ESG-based governance.

Risk

ESG needs to be part of our risk management framework. To do this we will be maintaining a second line of defence oversight on ESG risks as they evolve. This includes second line assessments of ESG risk, ESG risk narrative of finance disclosure, integration with Enterprise Risk Management framework and implementation of the target operating model.



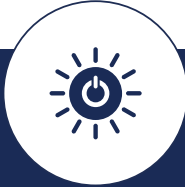





Aligning with the SDGs

Chaucer has chosen to align with the UN's Sustainable Development Goals (SDGs). These are 17 linked goals which were set up in 2015 and are designed to be a "blueprint to achieve a better and more sustainable future for all" by 2030¹. They are widely recognised in both business and the world at large as the gold standard for sustainable development criteria.

The SDGs are broad-ranging and companies that adopt them typically pick a number of goals to focus on based on the scope of their own operations. When we looked at the direct influence of our products, services, and operations, we decided to prioritise eight of the SDGs as goals that we believe we can materially influence and affect.

While we believe that as an individual (re)insurer we can have an impact, as a market, our impact is even more pronounced. Hence, we see this as an opportunity for our industry to work together in order to drive material global impact.

Our prioritised SDGs include:

 <p>No poverty End poverty in all its forms everywhere</p>	 <p>Gender equality Achieve gender equality and empower all women and girls</p>	 <p>Affordable & clean energy Ensure access to affordable, reliable, sustainable and modern energy for all</p>	 <p>Decent work & economic growth Promote inclusive and sustainable economic growth, full and productive employment and decent work for all</p>
 <p>Reduced inequalities Reduce inequality within and among countries</p>	 <p>Sustainable cities & communities Make cities and human settlements inclusive, safe, resilient and sustainable</p>	 <p>Responsible consumption & production Ensure sustainable consumption and production patterns</p>	 <p>Climate action Take urgent action to combat climate change and its impacts</p>

These prioritised SDGs form the weightings for the Balanced Score (detailed below).

¹United Nations Sustainable Development Goals. <https://sdgs.un.org/goals>

A Balanced Scorecard for ESG

We believe that to be truly authentic and to create real change, insurers should create an ESG strategy that is auditable and purposeful by defining up front what is important to them. This “own view” of ESG is critical as it fulfils the “proprietary thought” dimension to a (re)insurer’s ESG strategy. It also ensures that rather than being tokenistic, the ESG strategy is robust, genuine, actionable and transparent.

As such, we created a balanced scorecard that defines exactly which ESG risk criteria are important to us and how we will measure them. This balanced scorecard enables a holistic evaluation of companies (including both Chaucer and all third parties) across the E, S and G. The purpose of this scorecard is to bring a data driven, auditable approach to assessing and measuring ESG criteria – highlighting areas for improvement and of success, in addition to providing an overall score. The scorecard is unique in that it assesses the risk that the counterparty being assessed poses to ESG factors rather than the risk ESG poses to the counterparty. We will use this scorecard to drive meaningful, measurable progress on our ESG roadmap, in addition to sharing the results with our customers and partners to aid in their ESG journeys.

For us, it was critical that this balanced scorecard was devised in conjunction with all stakeholders across our business. This will help to ensure that the balanced scorecard is fully embedded into the business and that the data, analytics and metrics can be measured against the strategy (and therefore the identified priorities). We believe a balanced scorecard approach, where all key stakeholders have input into defining the key risk criteria and underlying data points will enable consistency and accountability across all business functions.

For Chaucer, the balanced scorecard is a critical tool. We think it will enable and drive the transition in a way that is auditable, equitable, and powerful. It will be a genuine force for change and is key to embedding ESG ethics into everything we do and every decision we make.

Balanced scorecard: the methodology and mechanics

In this section, we will provide an overview of our methodology for designing the balanced scorecard in addition to how it works.

We started by holistically identifying the risk criteria we believe are important across the Environmental, Social and Governance pillars. We ultimately identified 44 risk criteria which are measured using 158 data points.

We chose to partner with Moody’s to bring the scorecard to life given Moody’s market leading ESG data and analytics. Moody’s has an unrivalled database of over 10,000 public companies and over 400 million private enterprises, in addition to risk modelling expertise.

This same balanced scorecard will be used to assess ALL counterparties (operations, claims, investments, third party providers, in addition to our underwriting portfolio).

This balanced scorecard enables a holistic evaluation of companies (including both Chaucer and all third parties) across the E, S and G.

The process we undertook to build the balanced scorecard was as follows:

1 Identify risk criteria across Environment, Social and Governance pillars

Our starting point for defining the underlying risk criteria for the E, S and G was the risk criteria defined by the UNEP FI Principles for Sustainable Insurance (PSI). However, we note that this was merely a starting point, as we believe defining the risk criteria across each of the three ESG pillars is a critical exercise every company should undertake as it begins to build a unique “point of view.”

2 Define data points that measure each of the risk criteria

Next, we defined the data points that measure each of the risk criteria in a scalar way. By doing this, we give the entity scope to score both poorly and well, in addition to allowing room for improvement. This means looking at trends, not just a point in time. An example here is deforestation: if a company is cutting down large numbers of trees, it will score worse than a company that is actively planting trees. But if the first company reduces its deforestation by 50% there should be room to reflect this improvement.

The data points being applied will be industry specific as not all data points are appropriate for each industry. For example, companies within the education industry will not be scored on hydrocarbon extraction practices.

3 Identify what is important to us and weight the risk criteria (and underlying data points) accordingly

Most organisations do this by aligning with the UN SDGs. As mentioned previously, this means identifying which of the SDGs we can influence most (either directly or indirectly) and which are the most important to us. The data points are then weighted commensurately with the prioritised SDGs. This provides the opportunity for Chaucer to apply a weighting on the areas identified as priorities for us – and is the main customisable feature of the balanced scorecard approach. This reinforces the central theme - that in order to be auditable, purposeful, and authentic insurers need to agree what is important to them specifically.

4 Find a partner who can provide the data and the platform to build and implement our designed balanced scorecard

We chose to work with Moody's as it has an unrivalled data set consisting of both coverage of companies and depth of information for each of these companies. Moody's has the scale and resources to access reliable, auditable data that can “move the market” by introducing a standard approach to data collection and analysis.

Another key factor in partnering with Moody's was the overall quality of the data it provides. Given the nascent state of ESG data, this is an important factor to consider when choosing a partner. Finally, the other key criteria in this decision was that Moody's is a trustworthy partner which not only has the data but also allows us to assess it according to our priorities and appetite.

5 Embed the scorecard into decision making across all functions of the company

It is key that all parts of the business use the same scorecard as this allows meaningful comparisons and a consistent approach.

6 Measure and assess

We will use the balanced scorecard to measure ESG metrics for all counterparties across the entire company. Once the measurements have been made, they can be brought together to assess the overall position and performance of the portfolio.

We are currently in the process of analysing our entire portfolio of counterparties. In subsequent sustainability reports, we will be able to report on our portfolio and the relevant movements.

7 Build a roadmap for data quality

Given the nascent state of ESG data, it is important to work with our partner (Moody's) to identify data quality gaps and build a roadmap for addressing these gaps.

8 Define future targets and associated metrics

Although we have not yet reached this stage, this is where the impacts of the scorecard become more tangible. By taking a data driven approach to measuring and improving ESG, we can share our point of view with clients and partners. Through targeted conversations and actions, we can begin to improve our ESG score and that of our partners and clients.

Below are the risk criteria and data points for the E, S, and G. As can be seen, they cover a wide range of issues, ranging from illegal labour (for example, child labour and human trafficking) to executive pay (such as senior management incentives in the long and short term).

Balanced Scorecard: Environment Risk Criteria & Data Points

Risk Criteria	Data Point(s)
Hydrocarbon extraction practices	What is being extracted?
	Compliance with international or other standards?
	Type of extraction method
	Ability to return to pre-existing state
	Location (what was there beforehand)
Mining practices	What is being extracted?
	Compliance with international or other standards?
	Type of mine: overground vs underground
	Ability to return to pre-existing state
	Location (what was there beforehand)
Deforestation / controversial site clearance	Amount: how much is being cleared?
	Replant rate
	Location (what was there beforehand)
	Type of tree being cleared
GHG emissions	Amount
	Plan to improve
Climate change awareness	Level of awareness (e.g. risk management plan / emissions management plan)
	Activity - evidence of reduction / execution
	Plan to improve
Potential for severe environmental damage	Type of extraction
	Location of extraction (e.g. sensitive area)
Supply chain	Do suppliers follow international guidelines?
	Any and all of the above (linked to company or breaching it)?
	Evidence of proactive sustainability efforts?
Water management	Level of pollution
	How much overconsumption / underconsumption?
	Is there a water resource management plan?
	Where do they source water?
	Plan to improve
Air pollution	What is the pollution element?
	Level of pollution
	Short term impact
	Long term impact
	Plan to improve

Balanced Scorecard: Environment Risk Criteria & Data Points (continued)

Risk Criteria	Data Point(s)
Soil pollution	Type of pollution
	Level of pollution
	Compliance with international or other standards?
	Plan to improve
Noise & light pollution	Type of pollution
	Level of pollution
	Land or species impact
	Compliance with international or other standards?
	Plan to improve
Impact on local area	Short term impact
	Long term impact
	Impacting a world heritage site / natural park / protected area
Land management	Increased risk of damage (e.g. landslide)
	Compliance with international or other standards?
	Plan to improve
Landfill risk	Recyclable product
	How long to degrade?
	How long product can be used?
	Emissions impact
	Plan to improve
Animal testing	Testing on animals?
	What types of animals used for testing (e.g. legal vs exotic vs illegal)?
	Transportation of animals
	What is the purpose of the testing: necessary (e.g. medical) vs unnecessary (e.g. cosmetic / fashion)?
	Compliance with international or other standards?
	Plan to improve
Animal welfare	Storage of animals
	Transportation of animals
	Treatment of animal / living conditions
	Compliance with international or other standards?
	Plan to improve
Impact on species	Impact on species
Illegal fishing / controversial fishing practices	Impact on species

Balanced Scorecard: Social Risk Criteria & Data Points

Risk Criteria	Data Point(s)
Illegal labour	Modern slavery act
Worker health & safety & working conditions	Working hours
	Building construction
	Fire evacuation plan
	Relevant PPE
	OH&S
	Workplace temperature
	Breaks
	Fatigue management
Workers' rights	Injuries and death count
	Union
	Fair pay
	Right to strike
Security	Employee benefits
	Dangerous place to live and work
	Staff protection
Diversity & Inclusion	Staff protection improving or worsening
	Compliance with international or other standards?
	Awareness of international inconsistencies
	Pay equality
	Active discrimination
Forced resettlement	Leadership / senior positions
	Any forced resettlement?
	Level of care for resettlement
	Under performs, meets, or exceeds statutory requirements for resettlement care?

Balanced Scorecard: Social Risk Criteria & Data Points (continued)

Risk Criteria	Data Point(s)
Local employment	How many jobs are created?
	Under performs, meets, or exceeds statutory requirements
	Growth potential of employees
	Under performs, meets, or exceeds local requirements
	Number of local jobs displaced
Education	Is education provided?
	Who is education provided to?
	Level of education
	Cost of education
	Under performs, meets, or exceeds statutory requirements?
Housing	Housing provided?
	Budget amount and direction over time
	Improving or worsening the living conditions of locals
	Under performs, meets, or exceeds statutory requirements?
Local infrastructure	Assets being provided: e.g. communications (telecoms, wifi), power, roads / transport, water, shops /amenities, security (police)
	Who is it being provided for?
	Maintenance of assets
	Under performs, meets, or exceeds statutory requirements?
Health & wellbeing	Is it provided?
	Who is it being provided for?
	Level of care
	Cost of medical care
	Under performs, meets, or exceeds statutory requirements?
Economic impact	Local revenue into area
	Revenue / profit share with local community
	Level off revenue offshoring
Controversial weapons exposure	Category of weapons
	Purchasing country
	Domestic vs international use

Balanced Scorecard: Governance Risk Criteria & Data Points

Risk Criteria	Data Point(s)
Illegal labour	Modern slavery act
	Same standards applied for partners and suppliers as well as internal?
	Labour union - specifications in their rules
	Adherence to regulatory changes
Conduct risk, product mis-selling, product quality & safety	Employee courses / training on selling and providing advice
	Complaints procedure / policy in place
	Compliance department
	Complaints filed against them
	Fines or lawsuits
Tax strategy	Received any penalties or fines for tax evasion?
	Received any complaints?
	Under investigation or been under investigation?
	Clear policy on approach to taxation
	Any irregular tax practices?
Data breaches & misuse of data	Reporting on breaches
	Sensitivity of the type of data
	Regulatory body that controls the data
	Cyber security strategy / systems and procedures
	Cyber insurance in place?
	Compliance with international or other relevant standards?
	Any violation of regulatory controls?
	Any fines or penalties over time?
	Any complaints?

Balanced Scorecard: Governance Risk Criteria & Data Points (continued)

Risk Criteria	Data Point(s)
Board diversity	Use of criteria established by rating agencies
	Head of compliance on the board
	Use of hiring and onboarding best practices
Executive pay	Short term vs long term incentives
	Calibrated to corporate philosophy and practice
	Compliance within international or other relevant standards around employee vs executive pay
	Type of incentives: cash vs shares
	Use of criteria established by rating agencies?
Political lobbying, donations, bribery & corruption	Who do they donate to?
	Donation amount
	Do they have internal employee training on these topics?
Corporate governance	Ownership structure
	Audited annually? – Who are the auditors?
	Reports and accounts filed in line with regulatory regime
	Misappropriation of funds
	Level of corporate transparency
	Managed in the interests of shareholders not board members?
	Board configured in line with domestic /international standards or regulations
	Protection of shareholders from inappropriate decision making

Note: Some of the risk criteria and data points have been merged for presentation purposes, hence the total may not sum to 158.

Chaucer’s Approach

What we are doing fulfils both previously described components of an ESG strategy. We are building our own view of ESG in addition to ensuring that there is an appropriate level of adoption and integration across the entire business. Successful ESG has to be about both thinking and doing.

Climate Change

Although climate change is just one part of ESG, it is also one of the most pressing threats facing the planet and human civilisation today. Thus, although we classify it as one aspect or risk within our ESG strategy, it is important enough to call it out separately.

The Environmental element of ESG is broad and considers a wide range of issues. Climate change is the highest profile of these concerns, and it is important that all firms are able to articulate their approach.

At Chaucer, we separate climate change into ‘inwards’ and ‘outwards’ issues.

Inwards issues

These issues can be thought of as managing the financial risks of climate change. They reflect our approach to managing our exposure to changing global dynamics. In this respect, climate change is a risk to be managed like any other fast-developing trend. Traditional tools such as risk appetites, stress and scenario testing and risk monitoring are commonly used.

Chaucer’s Syndicate 1084 has been an active participant in the 2021 CBES study by the PRA, using stress and scenario testing to support regulatory objectives and for management to understand Chaucer’s own vulnerability to climate change. Chaucer are also proactive in ensuring compliance with regulatory guidance on the matter, ensuring consistency with the PRA’s SS3/19 and developing guidance from all of our other regulators. We look to go above and beyond these minimum standards and actively engage with climate change research using internal expertise and partnering with leading academic institutions and model vendors to ensure the latest views on the risks in our changing world are available to decision makers.

Outwards issues

Outwards issues are considerations which reflect our role as a corporate citizen and our own global responsibilities to reduce our contribution to the drivers of climate change and address the impact of climate change. Although many organisations use the language of risk management to discuss these issues, the risks involved are largely reputational. We believe these issues lie beyond the scope of risk management and are more closely related to corporate ethical considerations.

‘We look to go above and beyond these minimum standards and actively engage with climate change research.’

James Wright, Chief Risk Officer

Chaucer’s Risk Management Framework and Climate Change / ESG Risks

Financial Risks of Climate Change

ESG Risks



Chaucer’s Risk Management Framework is designed to manage direct and indirect financial risks related to the business. Its scope with respect to the ethical considerations around ESG are largely restricted to reputational risks. In this sense, financial impact is a secondary impact. Climate change is a broader issue and Chaucer is vulnerable to first-order financial risks through its underwriting and investment portfolios. We can broadly categorise the risks around climate change in to the two areas below, noting that some issues will present both a reputational and first-order financial risk to the business.

Thought Leadership, Sharing and Opportunities

Even though we believe that climate change is one of the single biggest threats to our planet, addressing it also creates significant opportunity. It is the force behind the growth of industries ranging from renewables to carbon capture to batteries and is also driving energy efficiency across the world. It is forcing us to think about how we run our own business in areas as diverse as risk calculation and pricing to identification of future revenue streams.

We believe that insights in this area should be shared to spread best practice and we are committed to exploring opportunities, collaborating, and sharing knowledge as we grow.



To contribute to the conversation and industry collective knowledge, we launched our first white paper on climate change in 2022. [Oceanographic climate change: the impact of ocean-based climate change trends](#)

In this report, we shared a brief summary of the key ocean-based climate trends, based on the latest published science. We then outlined our analysis and thinking around how these trends are impacting (and are likely to impact) the offshore marine and energy industries. We anticipate, for example, a greater risk of ships colliding with icebergs due increased glacial melting, coastal erosion leading to increased risk of grounding and more frequent storms leading to bottlenecks in ports.

Our progress so far



While we are still in the early stages of our ESG journey, we have made some meaningful progress. Below are some of the initiatives and activities we have undertaken to embed sustainability in our core business activities.

Sustainability in our investments

Our investment portfolio was the first place we started embedding ESG in 2018. To be truly authentic in our ESG approach and in order to drive real change, we wanted to devise a data-driven strategy where results could be measured and against which we could be held accountable. The methodology we designed here became the starting point for our Group methodology (outlined previously).

Some notable achievements include:



Investment portfolio which consists solely of Fixed Income Securities is analysed against ESG criteria on a quarterly basis.



A full carbon footprint report is being prepared to assist in the goal of decarbonising the investment portfolio.



We have developed metrics to monitor our portfolio and built in triggers and thresholds for adverse ESG impacts. The majority of our investments should have a neutral to positive impact.



Sustainability in our operations



Environment

Environmental issues are the most pressing and existential of the three ESG categories. The eleven initiatives we have launched in this space range from small achievements to setting more aspirational goals.

We have committed to achieving net zero by 2050 or sooner and becoming carbon neutral across our operations by 2030. While we are still working on our emissions current state and net zero (and carbon neutral) roadmap, some of the “smaller” initiatives that form some of the first steps in this journey are listed below.

- We moved to a new London Headquarters rated as the highest standard of sustainability by the BREEAM sustainability standard. Chaucer then designed the fit-out with a “sustainability by design” focus.
- We use 100% renewable energy in our London headquarters.
- We maintain a hybrid workplace, which reduces our overall carbon footprint by minimising daily travel.
- We reduced our in-office monitors from 920 to 330, which not only decreases our energy consumption but also decreases the manufacturing footprint.
- We reduced our total number of photocopiers and printers to two, which have dramatically reduced our overall paper consumption and usage, in addition to conserving energy.
- We have saved thousands of plastic bags by removing all waste bins under individual desks and installing central recycling hubs
- We replaced our coffee machines. The new ones use 90% less energy, dispense filtered water, hence do not require bottled water, and are made with 75% recycled materials.
- We replaced all our cleaning, sanitising and toiletries with environmentally and vegan friendly products.
- We use rechargeable batteries for all IT equipment.

Social

Our social initiatives cover a broad range of issues, which is reflected in their number. We have launched 34 initiatives that range from family friendly employment policies and flexible working to requiring Modern Slavery Statements from all our Tier 1 suppliers to Payroll Giving and Matching. Additionally, we pay (at a minimum) the London Living Wage to all our suppliers.

A recent highlight in this space was the 2020 launch of our employee led Diversity, Equity & Inclusion (DE&I) Group along with associated DE&I training. Since then, we have run a number of events and workshops aimed at educating our staff about issues such as discrimination and white fragility and training them to recognise unconscious bias and to be active bystanders. We hope to raise awareness of these issues, foster constructive dialogue around them and encourage all our staff to engage with them.

One further initiative of note is the Chaucer Scholarship, which is a program aimed at high school students from disadvantaged backgrounds who are aiming to go to university. It pays full tuition and living expenses for three years as well as offering mentoring and work placement opportunities.

At Chaucer, we are committed to creating a diverse workforce and an inclusive working environment which reflects our values and promotes high performance and innovation. We acknowledge that advantages and barriers exist, and we are determined to address the imperative for equity. Our social initiatives are part of this.

We are also committed to giving back to our community. All Chaucer employees are allocated two volunteer days per year. Additionally, Chaucer have two charities of the year which are supported by fundraising activities. Last year, Chaucer distributed over £220k to charities nominated by our people.

Governance

These initiatives cover how the company is run and structured and include initiatives ranging from gender pay gap reporting and board diversity training to achieving silver accreditation with Clear Assured. The goal here is to build ESG into the way we run the company and the structure of our business.

We have launched a number of initiatives in this space ranging from DE&I targets linked to compensation, publication of our full DE&I framework and inclusive hiring for managers training.

Sustainability in our underwriting

These initiatives ensure that sustainability is fully embedded into our underwriting portfolio. We have launched eight initiatives across both the E and S. These include a range of short and long term initiatives from strategic growth of our renewable power portfolio to new products. The microinsurer, Yokahu, is a case study which illustrates one of these initiatives.

Yokahu, which we launched in late 2021, addresses the problem of underinsurance in the Caribbean, where the insurance gap is estimated to be \$50bn. Up to 60% of property in the region is not built to a standard that is considered traditionally insurable. This problem is further compounded by high premiums which make insurance unaffordable for many residents.

One answer to this is parametric microinsurance products. These offer pre-specified pay-outs when a trigger event occurs. They are commonly used in developing economies, where underinsurance due to affordability and

infrastructure challenges can pose significant problems. As no loss adjustment is required, pay-outs are usually faster than with traditional insurance.

In the event of a hurricane, Yokahu monitors wind speed at customers' locations and the atmospheric pressure at the centre of a hurricane. If these reach pre-agreed limits, payment will be automatically issued to the policyholder within a maximum of 10 days after the hurricane and often within 24 hours. Pressure at the centre is a more accurate and reliable measurement than maximum wind speed and more closely correlates with the economic impact of an event.

Where we go from here



We have a number of goals we plan to reach in the short, medium and long term – and we want all of our stakeholders – ranging from the entities we underwrite to our staff, to the communities in which we operate – to hold us accountable.

We will provide an update on these goals by the end of 2022, with subsequent updates to be released annually.

These goals include:

Reach Net Zero by 2050 or sooner

We have committed to achieving net zero by 2050 or sooner. Our next Sustainability Report will provide an update on our plans and progress in addition to more detail on our roadmap.

Become Carbon Neutral across our operations by 2030 or sooner

We have committed to becoming carbon neutral across our operations by 2030 or sooner.

Complete external review of our Scope 1, 2 and 3 emissions and build a roadmap to reaching net zero by 2050

We are currently working with an external third party on establishing a view of our current state emissions, starting with our direct operations. We will use this as the starting point in the development of our net zero (and carbon neutral) roadmap.

Embed ESG operating model across the business

We are working on a target operating model that will embed our ESG framework into all decision making across our business. We will be using the balanced scorecard to score counterparties across our entire business, including the underwriting portfolio. We will use this as a tool to have focused conversations and to drive change in the places that matter. We are committed to working with our customers and partners to drive the transition of our ESG profile, and theirs, through individual interaction and portfolio management.

We will provide updates and details on this in our next report.

Balanced Scorecard updates

We are working with Moody's on a number of updates to our balanced scorecard. These include:

- a pre-bind tool which will enable us to view a company's ESG balanced scorecard before we bind – this will allow us to include the ESG score in our underwriting decision making for new clients
- enhanced data quality and coverage as we begin to work through our data quality roadmap.

Conclusion

This aim of this report is to provide an overview of our ESG strategy, summarise what we've done so far, outline where we'd like to go and detail some of the milestones by which we can be measured.

However, this report is very much a review of an ongoing process and we are closer to the start of our ESG journey than the end. We will provide an update by the end of 2022 on a number of the objectives mentioned above. Subsequent updates will be provided annually in our Sustainability Report which will outline the progress made towards our ESG goals.

‘We firmly believe that this is some of the most important work we are doing.’

John Fowle

Chief Executive Officer, Chaucer Group