



CLARENCE HOUSE

30th January, 2013

Dear Mr. Vieira,

At the risk of being a frightful bore, I hope you will forgive me writing to you out of the blue like this, but after the United Kingdom was so badly hit by flooding at the end of last year, and as each month seems to break another record, I am deeply concerned that, inexplicably, such extreme weather events are still not acting as the wake-up call required to address climate change.

Recently we have seen reports from the World Bank, the I.E.A., the World Meteorological Organisation and U.N.E.P., all reaffirming the urgency of the issue and highlighting that we are falling far short of taking the action required to keep the world below a two degrees increase in temperature – the limit at which the impacts of climate change are deemed “safe.” If there is to be any hope of avoiding so-called tipping points, such as widespread permafrost melt in the Arctic Circle or large-scale Amazon dieback, we have urgently to take faster and deeper action to decarbonise our societies.

When senior insurance leaders came together five years ago at my invitation, and went on to agree the ClimateWise Principles, I saw it as an opportunity for the industry to use its technical risk expertise to signal the costs of climate risk throughout our economy. A great deal has been done since then and I have been heartened by the progress that has been made; however, I do wonder if there is not yet still more that the insurance industry might be able to do in taking a proactive position in tackling climate risk? It seems to me that in addition to engaging wholeheartedly in the national and international discussions, the sector could, by taking a dual approach in terms of its own underwriting and investment operations, lead the way in demonstrating what a difference might be made in tackling the enormous challenge of climate change.

I well appreciate the enormity of the challenge, for when risks become too great, as you know far better than me, they become uninsurable and consequently less manageable for society. In some cases, insurers can find new markets to cover these potential liabilities, but because of the systemic and all

pervasive nature of climate change, the capacity of these new markets will presumably soon be exhausted. This must act, surely, as an incentive to take action to reduce the causes of the underlying risk, rather than merely the exposure to the liability of yet another climate-related disaster?

To a great extent, the key to reducing these risks, I would have thought, lies in promoting an understanding and implementation of measures that increase resilience, and I can only commend you for all you have done through ClimateWise to set such an encouraging example in this regard. Avoiding risk is surely always better than adapting to risk (which in the case of climate change may or may not be possible) and I am sure, more than anyone, you understand that the sector has an equally important role to play in the mitigation required to avoid the risks in the first place. Taking action on this requires courage and leadership, as there are few clear answers and much reluctance to change traditional ways of thinking.

As part of the overall effort to increase economic resilience, I have been greatly encouraged by the evidence of insurers' increasing expertise in low-carbon technologies. But I suspect there is much more that can be done systematically to incentivize the move to low-carbon solutions. Perhaps this might be helped by the sector taking a truly comprehensive view of the range of the levers at your disposal, from risk-based pricing, investment strategies and through engaging with policy makers to ensure that a truly joined-up and consistent approach is taken to policy development?

You are, I know, keenly aware of the responsibility insurers have as institutional investors. Currently, it is not automatic that underwriting climate risk translates into a company's investment strategy; but, of course, without this happening we will never achieve the investments in low-carbon infrastructure which are so desperately needed. We will remain locked in a high-carbon world. The consequences of that are truly appalling and therefore I wonder if it would be too much to hope that, by this time next year, we might see ClimateWise members being able to express clearly and quantitatively the percentage of assets they have which can be identified as low carbon? It seems to me, at least, that such an approach would be a great step forward and, perhaps, given the increasing volatility caused by climate change, also serve to reduce overall portfolio risk and so increase profitability?

I am delighted to see that in the 5-Year Review ClimateWise has been acknowledged as an important contributor to global climate governance. This is welcome recognition for the work that you have done, but I fear there is much more to do if we are going to translate what have been the incremental and inadequate steps taken so far by the global community into the action to contain warming to a two degree increase. Your membership of ClimateWise and your partnership with the Cambridge Programme for Sustainability Leadership, of which I am Patron, could not be of greater importance. I am, as I hope you know, enormously grateful that you continue to prioritize these discussions and I look forward to hearing further how this important collaboration progresses.

This brings you my kindest wishes.

*Yours most sincerely*

*Harvey*