

# 2023 Climate-related financial disclosure

**Foresters Financial UK**

in line with the recommendations by the Task  
Force on Climate-related Financial Disclosures  
(TCFD)

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# About Foresters Financial UK

This report comprises of both Forester Holdings (Europe) Limited and Forester Life Limited (FLL) companies, herein referred to as Foresters Financial UK. FLL is a wholly owned subsidiary of Forester Holdings (Europe) Limited ("FHE"), a company registered in England & Wales.

Forester Holdings (Europe) Limited is the ultimate holding company in the UK and holds UK fixed assets and provides administration support to Foresters Financial UK. Foresters Life provides stakeholder savings and investment, pension and protection products to UK customers which are available via a home based personal financial planning service as well as online direct to customers.

FHE is a wholly owned subsidiary of The Independent Order of Foresters ("IOF"), a fraternal benefit society, headquartered in Canada, owned by its members. IOF has branch and subsidiary operations in the US, Canada and the UK.

Our purpose is to enrich the wellbeing of members, their families and communities.

## Governance

### Board oversight

The Global IOF Board, which meets quarterly, has oversight of the management of sustainability and climate risk at a global level.

The UK Board, which also meets quarterly, has responsibility for sustainability and Environmental, Social and Governance activities from an investment, employee engagement, member engagement and regulatory perspective. Gemma Godfrey, Independent Non-Executive Director on the United Kingdom Board is responsible for championing Environmental, Social and Governance factors for sustainability. Climate metrics such as our scope 1 and 2 emissions are reported to the Board as part of the ESG dashboard, see metrics section for further information.

The UK Risk and Investment Committee, which also meets quarterly, has oversight of climate-related risks and opportunities, and other risks related to Environmental, Social and Governance factors. Climate risk is a regular agenda item at the UK Risk & Investment Committee, which reports to the UK Board. We report climate risk metrics such as 'Carbon Intensity' and 'Carbon Value at Risk' to the UK Risk & Investment Committee, and have set risk appetites. See metrics section for further information.

Climate change risk appetite has been set by the Board. We have a low risk appetite for climate risk and will therefore seek to manage it appropriately, as set out in this report.



## Management's role

Climate-related responsibilities are assigned to the UK Chief Risk and Compliance Officer (CRCO), supported by the Head of Sustainability.

The CRCO and Head of Sustainability identify climate risks in consultation with others across the business such as the risk team, Chief Finance Officer, Head of Investments, Chief Actuary, Chief Distribution Officer, Chief Customer Officer and our asset managers. Foresters Financial UK assesses against its standard risk likelihood and impact assessment matrix and reports the risks to the Board and senior management. Risks are managed as part of the strategic, financial and operational planning for Foresters Financial UK.

At a Group level, the Group Chief Risk Officer is responsible for climate and ESG risks, and is the Group Executive Sustainability Sponsor.

## Strategy

### Climate risks and opportunities and how they shape strategy, and financial planning

As a business we face both transition risks - risks from the process of transitioning towards a low-carbon economy, and physical risks - risks as a result of more frequent and severe weather events and longer-term shifts in climate.

To understand the implications of climate change for our business and to prompt longer term strategic thinking about risks and opportunities, we have conducted climate scenario analysis looking at different possible paths for climate policy and global warming. These are not forecasts, and the future will be dependent on government policy, technology developments, as well as supplier, customer, and societal responses. Further detail is provided in the scenario analysis section.

The scenarios were used to identify the material areas of risk and opportunity facing our business. We outline these, alongside the actions being taken to manage them, below.

For each risk we have set out time horizons. For climate risk, our short-term horizon looks at a five-year period, the medium-term horizon looks forward up to 10 years and the long-term horizon looks at the time horizon up to 2050.

- Regulatory and policy risk (Transition. Short / Medium) - ensuring Foresters is abreast of the changing requirements and is meeting them. Mitigated through monitoring of and compliance with upcoming legislation. We have modelled how this might impact expense risk in the scenario analysis.
- Changing Consumer Preferences (Transition. Short / Medium / Long) - changing demand for products and solutions and customers. In 2023, we launched the Schroders Sustainable Future Multi-Asset Fund to customers, and we are monitoring % of new business invested in this fund. We work with the marketing and distribution teams to understand customer attitudes. This could impact new business and encashments / persistency.
- Reputational Risk (Transition. Short / Medium / Long) - in terms of not meeting stakeholder (consumers/employees) expectations on climate change, as well as reputational risks linked to mis-selling and/or greenwashing. Foresters Financial UK has increased our customer communications on sustainability on the website and launched our first sustainability report. We have worked with the marketing team and the compliance team to raise awareness of greenwashing and how to avoid it. Whilst difficult to model, reputational risk has the potential to impact new business, encashments / persistency and expense risks.

- Reduced Consumer Demand impacting new business and encashments / persistency (Transition and physical. Medium / Long) - Foresters' growth could potentially be affected by decreased demand for products driven by slower economic growth, due to physical and transition risks. Risks to encashments / persistency and new business are explored in the scenario analysis.
- Expense risk (Transition and physical. Short / Medium / Long)
  - o Transition: Regulatory requirements could lead to higher staff costs, which could be exacerbated due to skills gaps and high demand. There may be expense pressures linked to the field force fleet, such as fuel costs or vehicle costs linked to the transition to electric vehicles.
  - o Physical: High increasing physical risks are linked to worsening health which could impact staff productivity, and therefore staff costs. Risks to facilities, such as flooding, would impact insurance costs. Physical risks to our supply chain could also increase costs.

Expenses are modelled in the scenario analysis. Increased expenses would limit our profitability and ability to invest in the business.

- Investment Market Risk (Transition and physical. Short / Medium / Long). A reduction in assets under management would impact fee revenue. We recognise the potential implications of climate change on the valuation and outlook of investment assets, which we manage in line with our fiduciary duty to act in the best long-term interests of our customers. ESG and climate risks are addressed in our Investment Market Policy and our Credit Risk Policy. Our asset managers use Environmental, Social and Governance (ESG) factors as part of their investment analysis ensuring they invest in businesses which they expect to be more profitable in the long term. Investment risks were explored in the 2023 ORSA and the scenario analysis set out below.

## Scenario analysis

We have conducted climate scenario testing based on the 2021 Climate Biennial Exploratory Scenario (CBES.) Whilst not one of the banks or insurers selected to participate in the CBES due to our size, we have used the scenarios in internal analysis to inform strategic and business planning.

Transition and physical risks are evaluated through a set of climate policy scenarios, based on scenarios from the Network for Greening the Financial Systems:

- Early Action (EA): ambitious climate policies gradually implemented from the beginning, limiting global warming to 1.8 C by year 30
- Late Action (LA): implementation of climate policies delayed by a decade, followed by sudden and disorderly measures, limiting global warming to 1.8 C by year 30
- No Additional Action (NAA): absence of climate policies, severe increase of physical risks, global warming reaching 3.3 C by year 30
- The results of the three scenarios are compared to a hypothetical counterfactual scenario with no headwinds from climate risks

We have looked at:

- Market and credit risk for our investments
- Encashments / persistency
- New Business
- Expenses

Scenarios used in this exercise are illustrations of possible paths for climate policy and global warming, not forecasts, and the future will be dependent on government policy, technology developments, as well as supplier, customer, and societal responses.

We found that climate risks are likely to create a drag on Foresters Financial UK's profitability. These losses in asset values are comparable to those of other insurers, as set out in the results of the 2021 climate biennial exploratory scenario<sup>1</sup>.

The modelling showed that in the early action scenario the value of our own funds was only marginally worse than the base projection.

The modelling showed both the late action and no additional action scenarios would worsen compared to the baseline over the next 30 years.

The late action scenario shows recoveries shortly after the decarbonisation period. The 'No Additional Action scenario' worsens each year. The 'No Additional Action scenario' results in the most severe outcomes for the business, even if the projection horizon is limited to 30 years.

The business remained solvent to 2050 in all three scenarios.

Limitations of the modelling:

When calculating market and credit risk, the portfolio is assumed to stay fixed over the projection horizon of 30 years. Whilst this makes the interpretation of the results more straightforward, this ignores that Foresters Financial UK's asset allocation would likely change in response to climate policies.

Foresters Financial UK recognises expertise in modelling climate-related risks is in its infancy. The CBES scenarios which we have used as a basis do not factor in other potential geopolitical impacts of severe climate change such as increases in migration and conflict, which alongside their enormous human costs, are likely also to result in further financial losses.

## **The transition to a low carbon economy**

The Climate Change Act commits the UK government by law to reducing greenhouse gas emissions by at least 100% of 1990 levels (net zero) by 2050. The UK has set targets to reduce carbon emissions by 68% by 2030 compared to 1990 levels – and by 77% for 2035.

As set out in the scenario analysis section, Foresters Financial UK is more successful with an early transition, compared to a late transition. The worse risks are with no additional action. This transition is dependent on timely and appropriate government policy, technology developments, as well as supplier, customer, and societal responses.

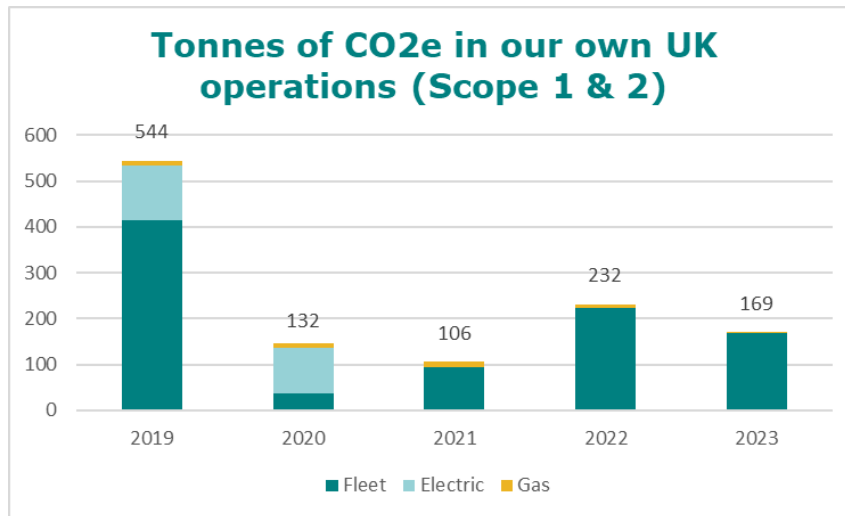
### **Scope 1 and 2 emissions**

For our UK scope 1 and 2 emissions, we set out how we have reduced our emissions and where further reductions may be achieved.

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<sup>1</sup> Section 4.2.1 <https://www.bankofengland.co.uk/stress-testing/2022/results-of-the-2021-climate-biennial-exploratory-scenario>

For reductions in scope 1 and 2 emissions to date, see chart below.



Carbon emissions savings since 2019 have been achieved by:

- Switching to a zero-carbon electricity contract in 2021 (as well as reducing electricity usage and onsite solar panels) saving approximately 100 tonnes of CO<sub>2</sub>e annually.
- Reducing fleet mileage due to adoption of virtual appointments. (Note whilst 2020 and 2021 were exceptional years due to covid, 2022 is more of an indication of anticipated fleet mileage going forward.)
- Reducing fleet emissions due to transitioning from diesel to hybrid and electric vehicles, with 88% of vehicles being hybrid at the end of Q4 2023.
- Moving to a green gas tariff in 2023.

Going forward, we anticipate further reductions as the fleet transitions to fully electric vehicles. For example, the UK Government is targeting that all new vehicles sold will be zero emission by 2035 and aims to fully decarbonise Great Britain's electricity system by 2035.

We have also been engaging employees with reducing our organisational carbon emissions, through for example, our employee events, tips and articles in the employee newsletter. As well as operational emissions, scope 3 emissions such as waste have been considered, with improved recycling signage in 2022, for example.

### Financed emissions

We seek to partner with investment managers who are aligned with Foresters beliefs and actively engaged on Environmental, Social and Governance (ESG) factors. Our professional managers take climate change into consideration as they evaluate risk and opportunity across investments. We survey Schroders, our primary investment manager, on how they manage ESG risk on an annual basis, and review the approach of our other asset managers. We monitor the engagement and stewardship activities of our asset managers. Whilst we do not have a target covering our financed emissions, many of our asset managers do. See the metrics section for more information on our investment climate metrics and risk appetites.

# Risk management

## Identifying and assessing climate risks and opportunities

Climate risks are embedded into the processes for identifying and assessing risks in the short, medium and longer term:

### Short term (less than five years):

- Less than one year

Risks are identified via engagement with key stakeholders across the business, including an externally facilitated workshop on climate risk. The risks are assessed and recorded in the Executive Risk Register and the relevant business area risk registers. This is both a bottom up-and top-down process. Residual scores are applied to each risk, to show the score once controls/mitigations have been applied.

The Executive Risk Register highlights regulatory climate risk. Actions taken to mitigate this risk include the hiring of a Head of Sustainability and incorporating ESG regulation in our regulatory horizon scanning.

- Between one and five years

Climate risks are captured as part of the Forward Looking Assessment of Own Risk (FLAOR) within the ORSA. The 2023 ORSA included a scenario exploring expense risks due to office flooding and a set of scenarios exploring investment climate risk (out to 2050).

### Medium term (between five and ten years)

Medium term risks are captured in the emerging risk register, which includes climate change risk.

### Long-term (more than ten years)

To consider climate risk on a longer time frame, we ran an internal workshop to explore climate risks with the CRCO and Head of Sustainability in consultation with others across the business such as the risk team, Chief Finance Officer, Head of Investments and Chief Actuary.

This workshop informed the risks included in the scenario analysis out to 2050 set out in the previous section.

## Monitoring and managing climate risks and opportunities

### Risk appetite

Risk appetite is defined as the amount of risk we are willing to take in the pursuit of our strategic objectives. Risk appetite is set by the Board and is used to ensure that business decisions take account of our ability to accept and manage risks and to guide management actions. Through the risk management framework, which includes the risk appetite framework, the risk appetite is formally established and communicated.



We have a low risk appetite for climate risk and will therefore seek to manage it appropriately, as set out in this report.

In addition, we have set risk appetites for investment climate risk metrics, further detail is set out in the metrics section.

### **Risk mitigation**

Within the risk register, the risk owners provide details of any mitigating factors/controls in place against each risk. Residual scores are then applied to each risk, to show the score once controls/mitigation have been applied.

### **Risk response**

Actions are added to risks on registers where existing controls are not sufficient to mitigate the risk or are not effective. For some risks where additional mitigations are not cost effective, a risk acceptance procedure is in place.

### **Scenario analysis**

Scenario analysis is used to help management understand the resilience of the business to potential future events.

In the 2023 ORSA investment climate risk was explored through scenario analysis and we also included a scenario exploring expense risks due to office flooding.

New business, encashments / persistency and expense risk have been explored and modelled with key stakeholders across the business to inform our scenario analysis, as set out in the scenario analysis section.

### **Risk monitoring and reporting**

The most significant risks faced by the business are reported to the executive including emerging risks and significant changes to the risk profile of existing risks. The risks on the business area risk registers are regularly reviewed and discussed with management. The CRCO will bring any significant changes to the attention of the executive. Significant risk events are also regularly discussed.

### **Committee updates**

Effective risk management requires engagement and communication from the board level down, as well as from the executive to the board. The CRCO provides an update on risk matters, including climate risk, to each Risk and Investment Committee meeting. The areas covered include the current risk profile, risk metrics to measure the business against risk appetite, emerging risks, updates on significant projects and a summary of events and potential losses. Ad-hoc reports are provided as required. The CRCO has free and unfettered access to members of the Risk and Investment Committee including the Chair of the Risk and Investment Committee and the Board Chair.

More detail on our climate risk indicators and how they are monitored and reported to the Board is set out in the metrics section.

# Metrics

## Metrics

For our funds managed by Schroders, our primary investment manager, we monitor carbon metrics on a quarterly basis. This makes up over 60% of our assets under management. We include the results in quarterly risk reports and have set risk appetite limits for these indicators as detailed below. The remaining assets under managements are largely made up of tracker funds from reputable companies which are more passive in nature.

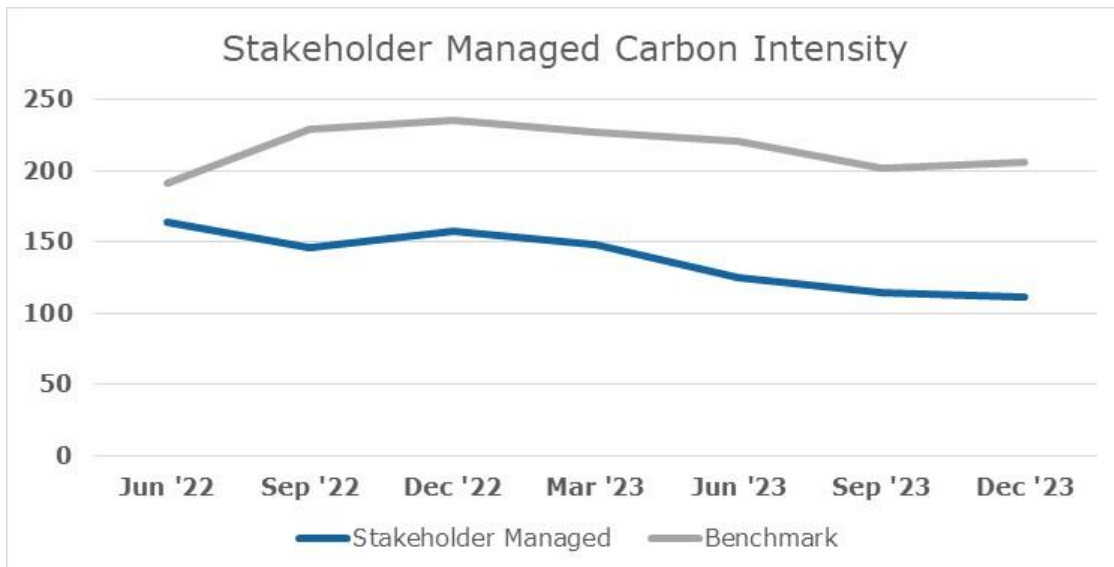
Carbon Intensity and Carbon Value-at-Risk are both reported quarterly to the Risk and Investment Committee.

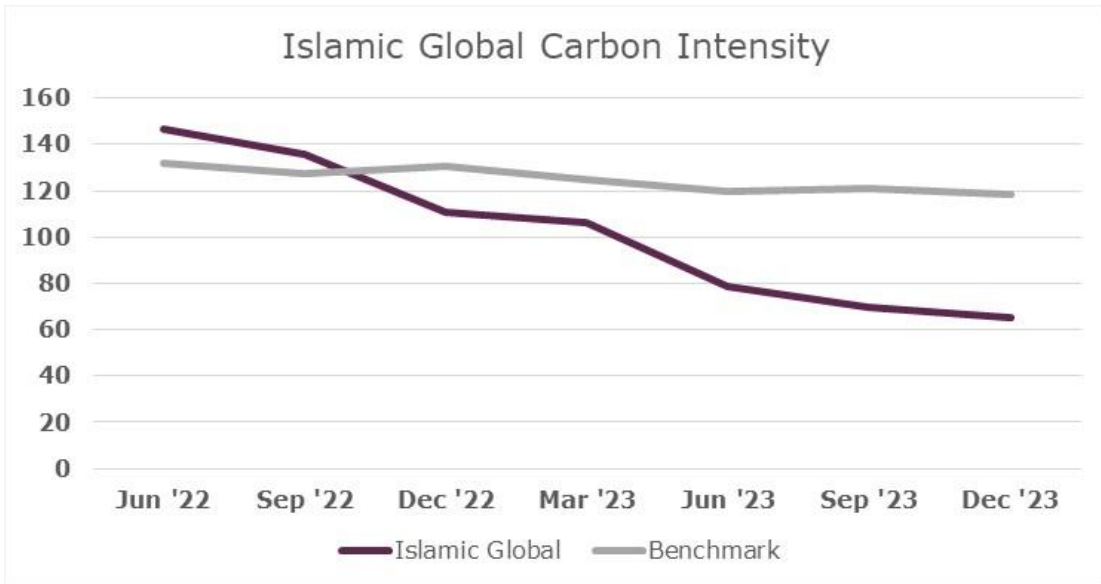
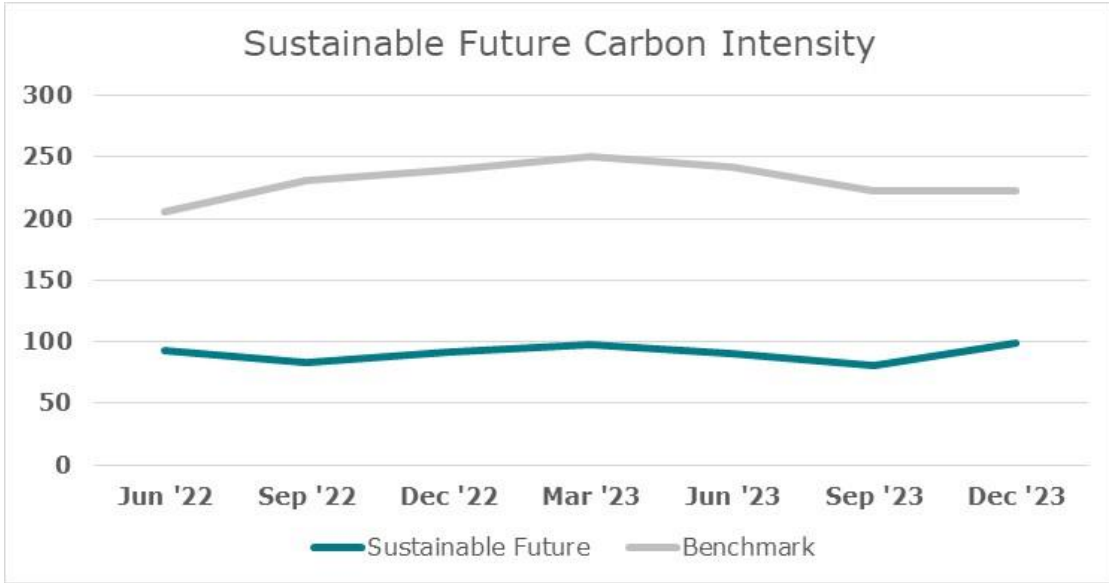
### Carbon Intensity

This monitors the portfolio's exposure to carbon-intensive companies and is a measure of CO2e in tonnes per £1m in revenue. The aim is that funds become less carbon-intensive over time.

We have set our risk appetite to be less carbon-intensive than the fund investment benchmark. If we are significantly more carbon-intensive than benchmark or to a level we are uncomfortable with, we would express our dissatisfaction with Schroders and request information on how they will navigate to make the fund less carbon-intensive.

The Carbon Intensity for the three funds in our open book of business is shown below:





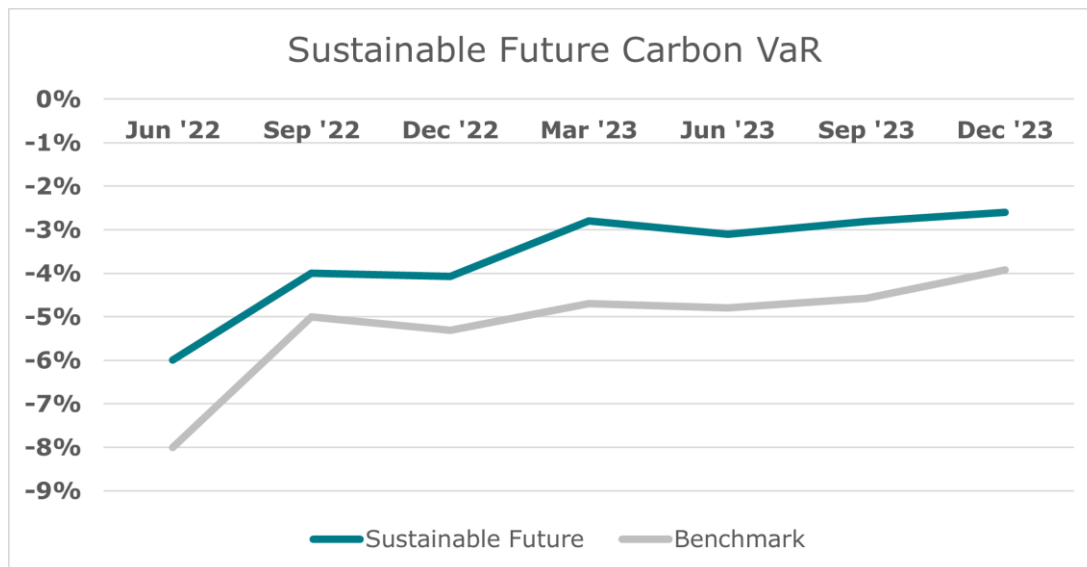
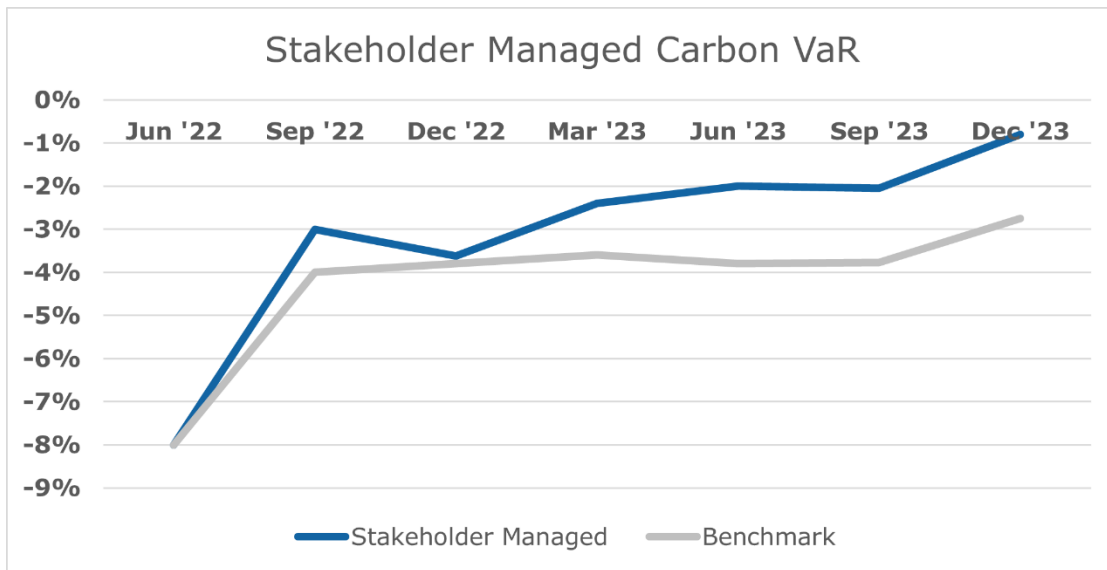
All funds have become less carbon intensive since the metric was reported in June 2022. In 2023, all three funds are less carbon intensive than their benchmark.

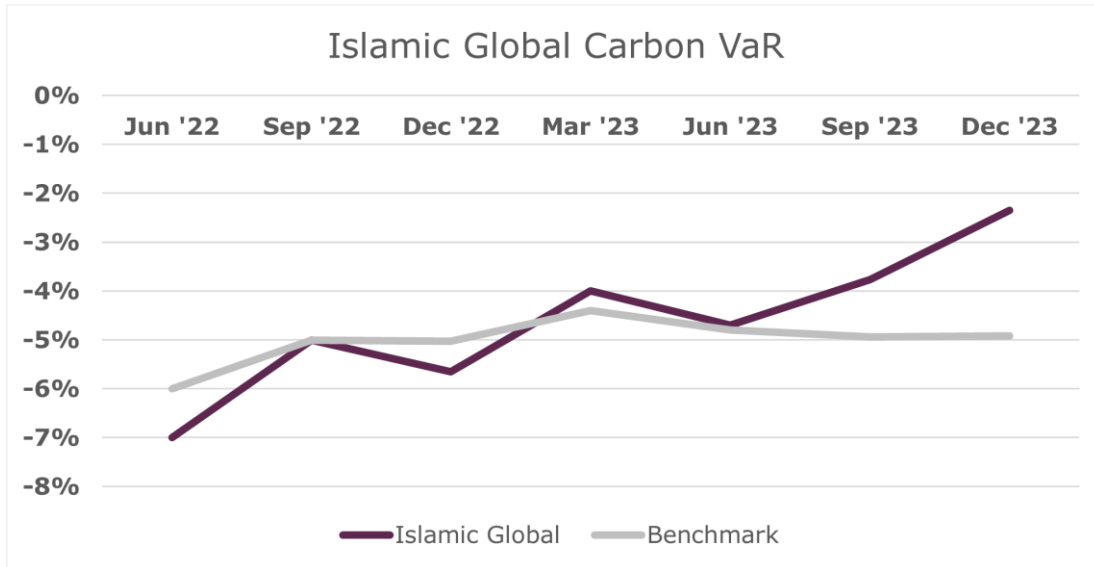
### Carbon Value-at-Risk

This measures the potential impact of companies' earnings of applying a carbon charge of \$100 per tonne of CO2e. This is expressed in the form of a percentage loss on the fund should the carbon charge be introduced.

Again, we have set our risk appetite to be a smaller loss than set in the benchmark. If this metric was significantly worse than benchmark or a level of loss than we are uncomfortable with, we would alert Schroders to our dissatisfaction.

The Carbon Value-at-Risk for the three funds in our open book of business is shown below:





All funds show a smaller loss since the metric was reported in mid-2022 and are performing better than their benchmark at December 2023.

Both these metrics are in their infancy and we expect to improve our understanding of these metrics over the next few years.

### Carbon footprint

We report the total carbon footprint of all our Schroders managed funds, which make up over 60% of our assets under management, to the Risk and Investment Committee on a quarterly basis.

Carbon footprints are available on an annual basis for the majority of the remainder of our funds, which are also reported to the Risk and Investment Committee.

### Scope 1 and 2 emissions

Whilst small compared to our financed emissions, we also measure and manage our Scope 1 and 2 emissions, as detailed earlier in this report. These are reported quarterly to the Board as part of the ESG dashboard.

### Targets

Given the dependency of the transition on timely and appropriate government policy, technology developments, as well as supplier, customer, and societal responses, we have not set a net zero target. With our focus on risk management, we have set risk appetites for carbon intensity and carbon value-at-risk for the three funds for our open book of business, as detailed above.