

UN Global Compact  
Communication on Progress (COP) Year 3 Reporting



On behalf of Legal & General Group Plc

September 13 2015

This report shows the progress that we have made in line with our commitment to the UN Global Compact principles between Sept 2014 and Sept 2015. It has been prepared by **Graham Precey**, Head of Corporate Responsibility and Ethics and Chair of the Group's Corporate Responsibility and Ethics Committee

## CEO Statement



*"2014 was another terrific year for us. We hit all our financial key performance indicators, delivering operating profit of £1,275 million, dividend growth of 21% and a great return for our shareholders. We continued to champion for change based on our five major long-term macro issues, which we believe are fundamental to the financial security and wellbeing of future generations.*

*We have again set tough medium term environmental, social and governance targets for the Group which either help us to do business better or campaign for measures to improve the lives of future generations. Networks such as the Responsible 100, UN Global Compact, UN Principles for Responsible Investment and Blueprint for Better Business will provide us with support in making these targets a reality.*

**Nigel Wilson** - Group chief executive officer

## Our company in context

Legal & General are a leading financial services company operating in the UK, Netherlands, France, and the USA. We help millions of our customers to plan and build a secure financial future in these markets.

For over 175 years we have made sure that we are always here for our customers, providing our best possible products, a clear, fair service, and a safe pair of hands for our customers. Typically we provide life assurance, pensions and savings products for these customers either to provide them with safety nets or a way of building up their finances. Our customers typically come to us when they are least vulnerable in their lives for our products for us to do our job with our services when they are most vulnerable.

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Every day we essentially perform **four simple** but important functions for our clients:

- To enable customers to **save for a pension** this will provide them with an income in retirement for life.
- To provide investment and savings products which allow individuals and families to **plan for the future**.
- To **pay out valid claims** when a customer becomes ill, is unable to work or dies.
- To **pay out valid claims** when a customer's home and its contents are lost or damaged due to a variety of causes.

We are recognized by three of the world's leading independent rating agencies for our financial strength, and our investment business is one of the biggest in the UK with responsibility for investing **£706 billion worldwide** (as of December 31, 2014) on behalf of our clients.

We employ around **10,000** people across our business in the UK, America, Netherlands and France. Around 7,000 of these are in the UK business which is the predominant market for us.

In 2015 our French and Egyptian businesses are in the final process of being sold as part of our strategy to focus our business. India First Life is now our only remaining joint venture in the Group of companies which is increasingly providing Micro Finance solutions to build communities out of poverty.

As well as being a successful business, we do our best to think about the things that matter to people every day; taking a stand on the issues that matter to us as a business, to our customers, and to broader society.

## Macro trends that matter

2014 was another terrific year for us. We hit all our financial key performance indicators, delivering operating profit of £1,275 million, dividend growth of 21% and a great return for our shareholders. We continued to champion our 5 major long-term macro issues which we believe are fundamental to the financial security and wellbeing of future generations.

Legal & General is a campaigner for better social mobility in the countries in which we operate around the world. We strive to make sure that each generation has the opportunity to live a better life than the previous one. What concerns us is that in a number of countries around the world there is strong evidence that this may not be the case. We worry about and want to solve the following systemic inequalities by simply doing business:

- **The world is getting greyer** - By 2030 there could be 20 million over 60s in the UK (27% of the population).
- **The cost of welfare payments** - Despite an austerity through insurance and workplace pensions programme, the UK state deficit for 2014 stood at £97 billion.
- **Fast money, Slow money** - The UK needs to build at least in direct investments, including housing 250,000 homes a year to meet the nation's housing demand.
- **Homogenous asset markets** The combined North American management business and Asian investment markets are eight times bigger than the UK's.
- **The connected world** - 52% of all internet traffic to retail websites

The purpose of our business is to provide financial solutions to these problems and turn them into opportunities.

## Our Business in the context of the UN Global Compact

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When implementing improvements against the UN Global Compact Principles we have a number of ways we can do this

- 1) Directly in our own business operations
- 2) Through our supply chain
- 3) Through Investee companies as a major investor in UK PLC
- 4) As a direct investor of our underlying balance sheet
- 5) Through our joint venture businesses in India. (Note that our other joint ventures are no longer in our portfolio of companies)

The Communication on Progress report that follows shows the progress against each principle that we have made in 2014 / 2015 to improve our business in our third year of being part of the UN Global Compact.

## Our Environmental, Social and Governance performance in 2014

We have created a **Fast Read** document for which is available [here](#) and provides a summary of the Environmental, Social and Governance performance of our business for 2014 as well as 2015 – 2015 ESG Targets for the Group.

We would like to highlight some of the achievements in line with UN Global Compact Principles of which we are particularly proud in 2014.

### As an active Investor

We have the responsibility for investing over a **£706bn** of clients assets in 2014. We are one of the few fund management houses globally that has both qualitative and quantitative engagement targets for the year ahead. In 2014 we set a number of UN Global Compact related areas of concern for engagement specifically including

- **US company engagement** - with a focus currently on the technology sector on issues such as human rights in the supply chain and corporate reputation.
- **Improving gender diversity** in UK boardrooms especially in mid-cap listed companies.

We publish a [yearly report](#) back to stakeholders on how we have done in these areas of engagement with companies. 2014 was a significant year for company engagement. In fact our highest ever as a business.

We held **589** in-depth meetings with **354** companies, over **32%** covered environmental and/or social topics. 407 of these were with UK companies and **182** in the rest of the world. Activity in the US increased up to **94** companies up from **59** in 2013.

## As a provider of financial safety nets to millions of people

We are in the business of providing our customers with products when they are planning ahead and least vulnerable with their lives with services when they are most vulnerable in their lives.

In our retail business we continue to grow the number of financial safety nets to millions of customers in the UK and overseas, above what each nation state provides, to build people out of poverty and provide them with a strong sense of financial independence.

In our UK market we increased the number of customers whose financial safety nets we provide by 10% in 2014 compared to 2013. We saw the same year on year growth in our overseas businesses (USA, Netherlands and France collectively)

We have continued to track our market inclusivity as a company. We're particularly worried about three social groups, which we believe are under more pressure than other to make ends meet let alone worry about the future:

- **Green shoots** are young students/first jobs and newcomers to financial services. We know that the pressures of finding jobs and getting a secure roof over their heads is getting more difficult.
- **Grey days** are low earners and only likely to use very basic banking and insurance services. Our work with credit unions shows that there has been a significant increase of people in this area.
- **Pink fizz** are mainly young singles with busy lives, private renting or mortgaged and credit users. We know getting that first step on the housing ladder is almost impossible now.

In 2014, these three segments accounted for **26.4%** of the UK population, which is down from **26.8%** in 2013. We are pleased to report that our retail business had **15.3%** of its customers in these groups in 2014, which increased from **14.5%** in 2013. Our work to bring auto enrolled pensions to more employers in the UK and our digital campaigns to engage a younger audience have improved our position with these market segments.

## Campaigning for further change in “Welfare Reform”

We are taking much more of a public stance on how the UK needs to provide more affordable financial safety nets for their citizens. We believe that when income limiting events hit such as health scares, redundancy and or a housing crisis there needs to be more joint effort from government and the insurance sector.

We have published a number of articles on our views via our CEO's Blog which strongly links to our macro trends of housing, health and an ageing population.

We have muted a number of proposals around financial solutions to solve these systemic issues of welfare provision including a “**Rainy Day Savings**” product which basically would provide anyone in employment with a small simple insurance based solution that makes use of the structures put in place for pension's auto-enrolment.

We believe that it would create a series of safety nets that could give people the same or better income replacement than the present contributory welfare system and it would cost less **than £10 per month** or around the same as one lottery ticket a week. The carrot for people to join the scheme and their employers to administer it, would be reduced national Insurance contributions, particularly skewed towards small employers and the lower paid.

To support this we have worked with the **Centre for Social Justice** to publish joint work on the negative impact that low pay has on UK families. We were pleased to see that UK Government has created a new UK Living Wage standard post the 2015 election which will put more money back into the hands of hard working families. We have been a **UK Living Wage** employer since 2013.

## Increasing policy transparency with NGO's

As a founding member of the [www.responsible100.com](http://www.responsible100.com) network whose aim is to improve transparency amongst companies, we have worked with a number of NGO's to road test our current policies and practices as a business. This network is different because it provides head of policy within member businesses to meet together with peers and relevant NGO's to discuss important areas of NGO pressure with companies out of the heat of campaigning. The answers are then discussed and then ultimately published to consumers.

We have been involved in discussions on policy on executive pay, diversity, collective consultation, taxation, human trafficking, investment in arms, union representation, whistleblowing and cyber security so far.

We continue to look for views that will enhance our understanding of inherent and emergent risk in the way that we do business with NGO's who are an important source of knowledge for us. A good example is how we continue to lead the debate and transparency on country by country tax reporting and taxation principles as a company and as an investor. We have published what we believe is good practice for tax professionals [here](#)

## Independent Materiality Analysis

During 2014 we commissioned our first independent materiality process asking the biggest number of stakeholders in our business their views on how our business performs in a number of policy areas. We published the results [here](#)

The top 10 material areas as identified by our stakeholders are as follows

Business ethics and business integrity	Product responsibility	Employees	Environmental protection
Customer privacy ●	Risk management ●	Employee and director remuneration ●	Energy efficiency ●
Compliance ●	Claims management ●	Employee engagement ●	Material efficiency and waste reduction ●
Corporate governance ●	Active stewardship ●	Diversity and equal opportunity ●	Waste and wastewater ●
Responsible marketing and fair sales ●	ESG in investment decisions ●	Long term leadership ●	Emissions to air ●
Taxation policy ●	Product innovation ●	Recruiting and retaining talent ●	Investment in renewables ●
Interaction with governments ●	Market inclusiveness ●	Occupational health and safety ●	
	Education ●	Training and further education ●	
		Human rights ●	
		Employee representation ●	

(Key Red = High Priority, Yellow = Medium Priority)

The issues of **'very high' importance** were all in the business integrity and business ethics category. This is not unusual for a financial services industry. Stakeholders saw **confidence in customer privacy** as their number one issue.

We were surprised that **environmental issues** were not listed among the top 10 currently relevant sustainability issues as they are among the top issues to increase in relevance in the next three to five years.

As a result of the materiality survey **we increased our disclosure** in the annual report and accounts in the policy areas highlighted with a new section of reporting as [detailed here](#) and shaped up our forward looking ESG Targets for the next few years.

We continue to use data from **SIGWATCH** and **REPRISK** in our Group Risk management information packs to understand NGO sentiment around the way that we are operating our business and where we are operating on behalf of our clients. This often leads to meetings with individual NGO's to discuss developing issues around human rights and labour rights.

We continue to be a **lower risk** from an NGO perspective because of the nature of our business

## Creating a more equal place to work

We continued to make good progress in 2014 on engaging our employees in the purpose of the company, in their belief that we provide financial safety nets to our customers and their views that we do this in the right ethical way.

There are a number of important highlights on our workplace in 2014

- We have around 8,500 employees in the UK and overseas. The number of people we employ in the UK **dropped by 2.4%** during 2014.
- Total investment in **employee development in the UK is £3.85 million.**
- Total investment in employee learning and development in the US is **\$408,799.**
- All UK employees and on-site contractors continue to be paid salaries that meet the **UK Living Wage** level.
- Our **joint ventures** in India (IndiaFirst) and Egypt (CIL) have for the first time been independently benchmarked as part of our employee survey. We are pleased to report that **Egyptian employees scored 78%** in their Employee Engagement Index, which is on a par with our UK business. At **India First, the Employee Engagement Index score was 86%.**
- Our joint venture, **CIL in Egypt, scored 73%** on its latest Business in the Community Index Benchmark (up from 63%) as part of the Group's oversight on how well the company serves its employees.
- **Employee turnover has gone up** in all businesses except Legal & General France as we restructure the businesses at the end of 2014.
- UK employees who are **members of Unite reduced by 5% points** to 28% of our UK workforce.
- **Employee engagement has remained positive** across all business sites at 74% in the 'UK What Matters' survey. This is down in the UK by 4% from 2013 due, in the main, to people feeling somewhat unsettled due to the **ongoing reorganisation.** Worldwide, engagement has continued **unchanged at 77%.**
- The Leadership Index, focusing on managers and **senior management behaviours** and outcomes in the UK 'What Matters' survey has remained **constant at 74%.**
- Employee health and wellbeing was closely watched, with 74% of employees in the UK 'What Matters' survey continuing to have the same **positive work life balance** compared to 2013.

More details can be found [here](#)

## Investment of long term, slow money for economic and social good

We have now invested **£6.2 bn** of the **£15bn** commitment into UK infrastructure, and our direct investments (including through sale and leaseback, capital loans or equity stakes) are now providing long term capital – **up to 50 years' duration** - to the social and economic areas that are material to our business

We continue to find ways of providing systemic long term, **patient capital to sectors** which need direct funders like Legal & General to replace retrenching banks such as housing, energy, health and

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social care. By placing capital carefully and directly into parts of society and the economy that need stability we believe that key issues of housing, health and later life will improve social cohesion and stability.

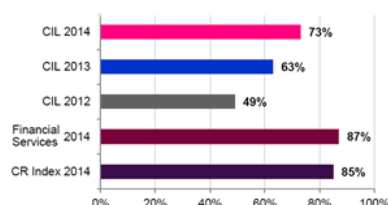
- We have a permitted investment policy [here](#)
- We are investing in housing and city regeneration as detailed [here](#)
- We are improving healthcare as detailed [here](#)

We have made a number of **governance improvements** in the organisation in which we have taken a stake in our balance sheet as part of our “influence through ownership” approach to investments. For example we have established an **Ethics Committee in Pemberton Asset Management** which oversees the [permitted investments policy](#) and ESG monitoring of the European Small to Medium Sized Enterprises that they are financing. We have also worked with **Cala Homes** to produce their first [sustainability report and materiality process](#)

## CIL Egypt – Improved performance through Legal & General’s ownership

According to FTSE 4 Good criteria our joint venture businesses in India and Egypt are operating in “**Higher risk Countries**” from a Bribery and Corruption and Human Rights perspective. Our presence in these countries has social and economic value in that our financial products are providing simple savings and life insurance products for citizens within those countries where there are few state benefits.

Our **joint venture CIL in Egypt has now been sold** and we are now no longer responsible for that business. However we have seen some enhancements during our ownership. Whenever we are involved with a business our aim is to improve it not only financially but improve its social impact and environmental footprint.



CIL started monitoring and measuring its CSR performance in 2012 in cooperation with the leading benchmark company **Business in the Community (BITC)** with the support of Legal & General. They have improved their scoring from **49%** in the 2012 BITC Corporate Responsibility Index to **73%** in 2015.

Their CSR program has focused on finding new ways to make the community and environment a better place to live in; while ensuring that the customers, employees and suppliers have the satisfaction of knowing they are working with a good corporate citizen whose values are aligned with their own.

Some examples of how they have done this include

- Donating **EGP 5 for every policy sold** for CIL community development projects alongside employees payroll giving donations
- Installation of clean drinkable water and electricity to offer underprivileged families better living conditions
- **Supporting marginalized Egyptian families** through different family development projects with the focus of “Empowerment of Women”. We helped women abandoned by their husbands to start their own business to secure a regular income to their small families and participate fully in the economic life thus help to build stronger economy.
- The launch of micro finance insurance products that **enables vulnerable segment to buy affordable insurance products** that indirectly help them to secure their families if the family breadwinner dies or become disabled.

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- **Provide underprivileged children with access to quality education** opportunities and tools. The program provide the children in marginalised areas with educational training in reading and writing, general education and creative and practical skills that put the children on the college track. This helps to eradicate primary stage students' illiteracy & enable students to understand different texts and express themselves in writing.

## A procurer of products and services

In 2014 we spent **£527m (+5%)** on 2013 on procuring products and services to run our business. The number of suppliers increased to just under three thousand and we now have 206 key suppliers of which 16% of our spend is now contracted in the UK but delivered from high risk countries (as defined by FTSE4Good). See more [here](#)

As a result of these changes we have improved our governance within our supply chain in 2014.

We've **increased our key suppliers to 206** and have enhanced our governance framework to include the requirement for suppliers to report their environmental, social and governance performance improvements. We did this because we risk reviewed those suppliers who we are spending more with and whose social and environmental impacts have increased during the past year.

In 2014, we developed and simplified our policies, replacing our sustainable procurement policy with a [Supplier Code of Conduct \(PDF, 146KB\)](#), which all suppliers must comply with. Our Supplier Code of Conduct incorporates equality and diversity inclusion and environmental standards. We expect our suppliers to have clear processes to maintain these standards and the ability to provide evidence of compliance when required.

To make it easier for our suppliers to independently evidence compliance with our policy, in 2014 we developed an **online compliance assessment** which is issued to all key suppliers using an online portal.

In 2014 we **retained our ISO14001 accreditation** within our supply chain operations. These require the group to be externally audited against the standard.

In line with the **UK's Modern Slavery Act 2015** we have commissioned **REPRISK** to help us to understand and monitor the NGO activity around our supply chain as additional governance on our procurement processes. You can read more [here](#)

## Environmental Policy, Challenges and Opportunities

We're a services based company that uses natural resources to run our business. We're acutely aware that the climate impacts how customers live their lives and how investors invest money long term. Our strategy is to build resilience and do more each year with fewer natural resources rather than offset. More details on our inherent environmental risks and opportunities can be found [here](#)

From 2008 to 2014 we haven't been subject to any breach of environmental regulations as a result of our business operating.

We continue to work with a number of stakeholders to improve our knowledge and understanding of climate change. A number of partners help us with the disclosure of environmental performance:

- Institutional investors group on climate change ([IIGCC](#)).
- Employees within the Group who have views as consumers.
- Carbon disclosure project ([CDP](#)) and its disclosure of carbon.
- Better Buildings Partnership ([BBP](#)) to support commercial property developments.



## Our Environmental Performance

Eco-efficiency of our operations is one of our key material environment issues. We recognise the need to manage these impacts for several years and are committed to meeting the challenge of 'doing more business, with fewer resources and impacts'.

We were pleased to report in 2014 that despite a 10% increase in the number of customers we are responsible for:

- Both our absolute carbon and **carbon per policy has reduced** since our baseline year of 2011/12 (5% and 32% respectively).
- Energy consumed in UK buildings has **decreased by 9%** since 2013.
- Total paper purchased has **decreased by 12.5%** compared to last year.
- UK waste per policy has **reduced by 25%** since 2013.
- All electricity procured for UK locations and investment properties is from a **renewable tariff**.
- We generate our **own electricity** in the Netherlands. We recently installed solar panels that have the capacity to generate 34,750 kwh/year.

We have reported on the emission sources required under the Companies Act 2006 Strategic Report and Director's Report Regulations 2013. We have used the Green House Gas (GHG) reporting protocol for calculating our GHGas emissions for 2013 and applied the emission factors from UK Government's GHG Conversion Factors for Company Reporting 2014.

You can read more about our environmental performance [here](#)

## Investment in Environmental Technologies

We still have a number of investments available to customers big and small to reduce environmental risk as well as to invest in the climate change technology opportunities. Details are [here](#)

The need for **alternative sources of energy within the UK** is clear as it will boost growth and lower energy bills across the UK. We've taken great strides to find ways to buy and support renewable sources of energy in the UK. With great pressures on traditional sources of energy such as gas and oil it makes sense for us to play our role in stimulating the market for renewable energy. This came through as an opportunity for our Direct Investment business.

In 2015 we have put a public view out around our intention to support renewables energy with our own balance sheet investments in the support of [UK renewable energy](#)

## Anti-Bribery and Corruption approach

The reputation of Legal & General for open, fair, honest and lawful business activity is one of our greatest assets. We are committed to maintaining the highest standards of ethics and we do not tolerate any form of bribery or corruption.

[Legal & General's Anti-Bribery & Corruption policy](#) applies to staff, executives, contractors and consultants in relation to all activities undertaken by, or on behalf of Legal & General Group and its wholly owned subsidiaries. We have also added an explicit [Groupwide anti money laundering and terrorist financing policy](#) to our policy centre

Management information procedures are in place to inform senior management of any increasing bribery & corruption risks from around the Legal & General Group. We continue to be an active member of [Transparency International's Business Integrity Forum](#) and have recently undergone a review of our lobbying approach and activities with governments by this network which is set to be

published in the next few months. Our current approach is outlined [here](#). This includes a link our [areas of discussion](#) with government and the [European Transparency Register](#)

During 2014 Legal & General has not been involved in any legal cases, rulings or other events related to corruption and bribery. Legal & General's books and accounts are subjected to statutory external audit annually. Furthermore, Legal & General's operational control framework, which includes the mitigation of bribery & corruption risk, is audited continuously by Legal & General's Group Internal Audit function.

We continue to be members of key investment indexes that take the governance of Anti-Bribery standards seriously as part of their work. We know from talking to these organisations that they would like to see more public disclosure on our anti-bribery and corruption controls and data that we use to run the business. Our current view is that we are limited in what we can publish because of the risk of "tip off" as our investigations typically work with a number of serious crime prevention agencies.

## Where next with Targets and UN Global Compact Principles?

Our ESG Targets for the next few years are set out [here](#) in relation to UN Global Compact Principles. Beyond these we have a close eye on a number of emerging agenda's including

- The development of *Total Country Contribution* reporting where companies go beyond country by country reporting on taxation and provide the full economic contribution made by country as well as the social impact of being in operation there as well as the environmental impact. We have made a start here at Legal & General by putting all of our economic impact [all in one place](#). In 2014 our company was at the centre of **£732bn** of economic value.
- We are working on the implications for our new responsibilities in line with the UK's Modern Slavery Act 2015 and for emerging beneficial ownership legislation within our investments, supply chain and as an employer

As ever we are open to ideas and feedback if we are missing any components of the UN Global Compact in the way that we run our business. Please contact Graham Precey, Head of Corporate Responsibility and Ethics who would be happy to hear from you [graham.precey@landg.com](mailto:graham.precey@landg.com)