

Is ESG here to stay?

Developments in Climate Change

18 May 2023

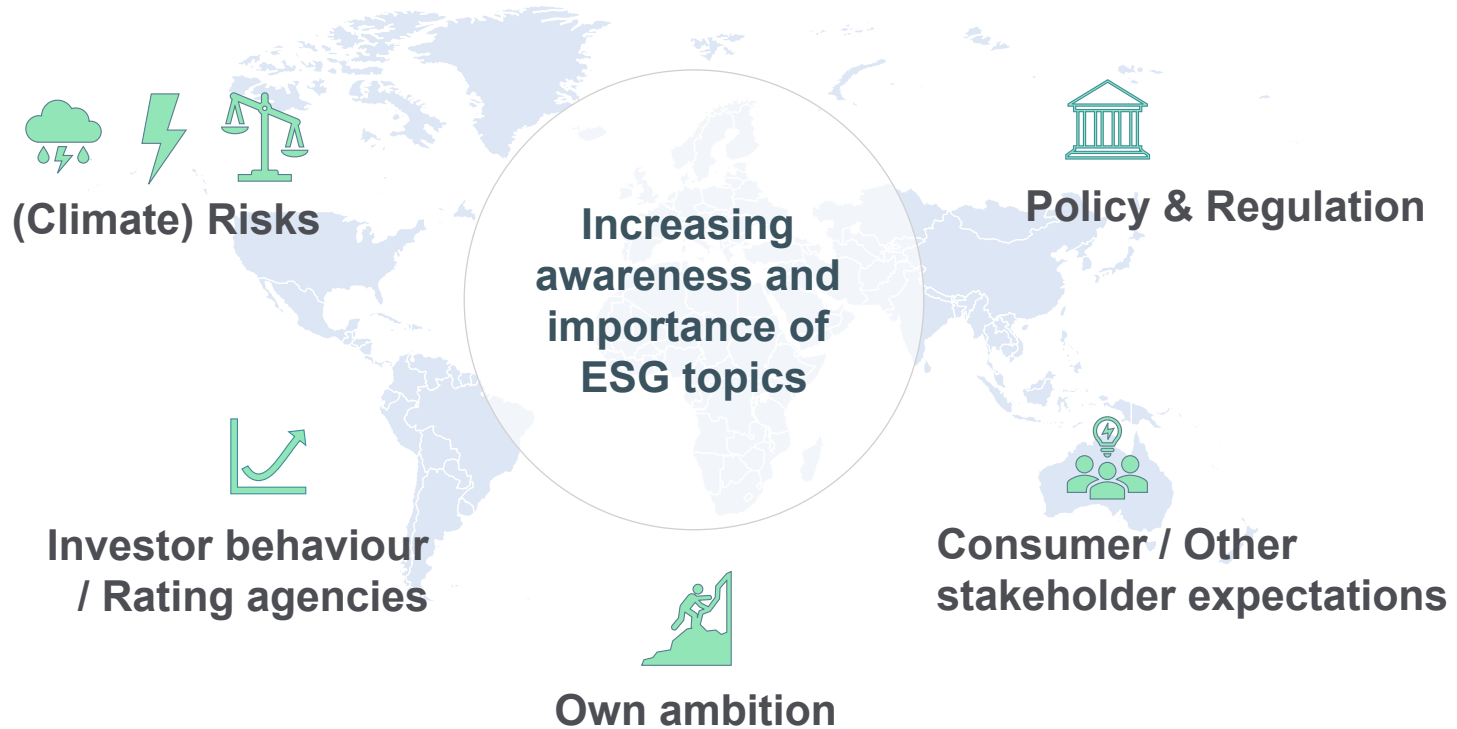
Tafadzwa Mugadza

NOT IF, BUT HOW

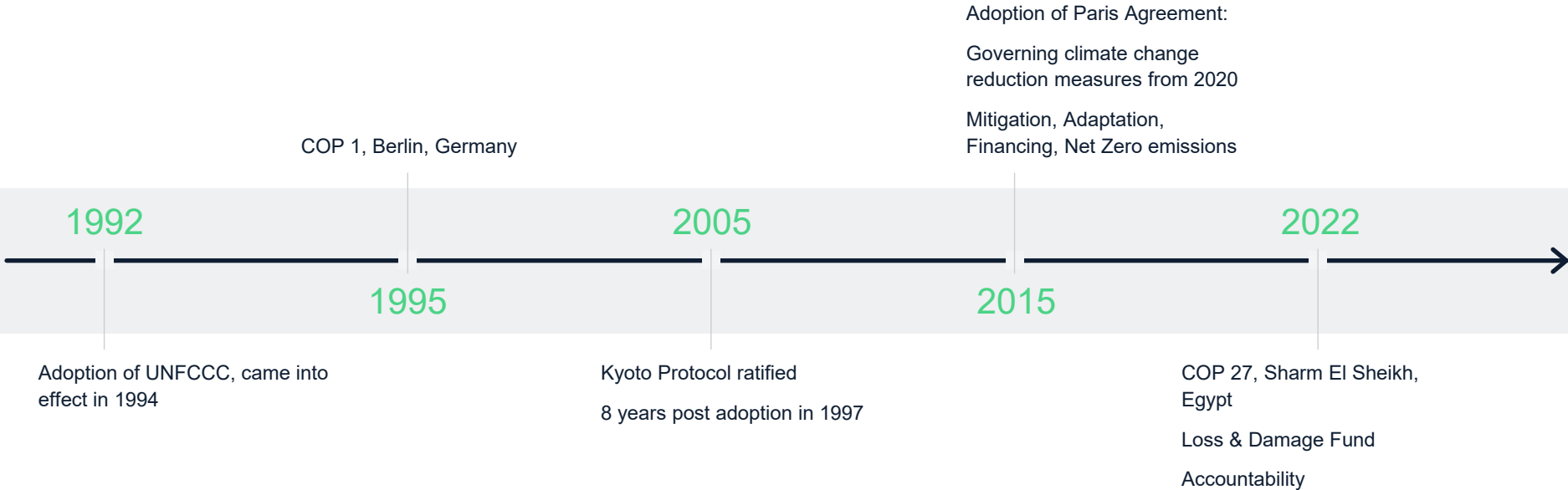




Internal & External Sustainability Drivers



Regulatory Developments





Background

- 2030 Agenda for Sustainable Development
- 17 Sustainable Development Goals (SDGs)
- Can not be handled by public sector alone
- Sustainability :

“avoidance of the depletion of natural resources in order to maintain an ecological balance” Microsoft bing



Social

- Human Rights
- Customer Satisfaction
- Corporate citizenship/philanthropy
- Sustainable products (e.g. inclusive insurance)
- Human Resources:
 - Diversity and inclusion
 - Training and Development
 - Health and wellbeing, employee satisfaction



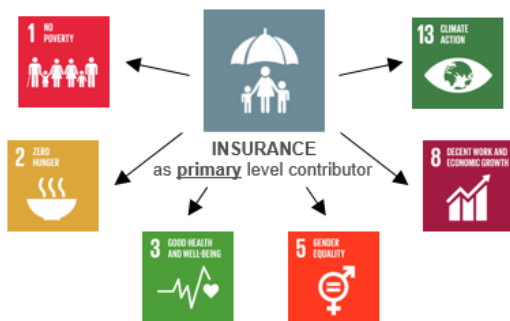
Environment

- **Climate Impact and Strategy**
- Biodiversity
- Energy Management
- Ecological impact
- Resource use
- Water and oceans
- Waste
- Sustainable products (e.g. green insurance)



Governance

- Board remuneration
- Independence of Supervisory Board
- Anti-corruption and bribery
- Information security and data protection
- Tax transparency
- ESG Governance
- Risk Management
- Transparency and reporting



SDG 1 No Poverty: Insurance provides a safety net for those using it, preventing families from falling into poverty after experiencing a shock loss

General- & Micro-Insurance

SDG 2 Zero Hunger: Insurance fosters sustainable food production, by providing insurance to and through farm lenders

Agricultural Insurance

SDG 3 Good Health: Insurance offers social protection for household healthcare costs and promotes health seeking behavior.

Health Insurance

SDG 5 Gender Equality: Insurance offers protection to women working in the informal sector and protection for small, women owned businesses.

Micro-Insurance

SDG 8 Economic Growth: Insurance protects assets, unlocking financing for development of businesses by protecting them against a range of losses.

General Insurance

SDG 13 Climate Action: Insurance mitigates the effects of extreme weather events and provides catastrophe insurance and reinsurance to protect everyone from governments, companies and the most vulnerable populations.

Nat. Cat. Insurance

Munich Re Group approach to decarbonization

Lead by climate action – leveraging role as investor, underwriter and audible public voice

| | Assets | Liabilities | Own GHG-emissions | | | | | | | | | | |
|---|--|---|--|--|-------------------|--|--|--|-----------------------------|---|---|--|--|
| Today | Financed GHG-emissions No investment in companies with <ul style="list-style-type: none"> >15% revenue thermal coal¹ >10% revenue oil sands | Insurance-related GHG-emissions (primary, direct, fac.) Thermal coal No insurance for new coal mining, powerplants, related infrastructure ⁶ | Oil & gas – exploration and production No insurance for new and existing oil sand sites and related infrastructure ⁷ , arctic exposure and infrastructure ⁸ | Reducing our direct impact <ul style="list-style-type: none"> Carbon neutral since 2015 Reduction by 25% per employee (2019 to 2021) | | | | | | | | | |
| April 2023 | No direct illiquid investments in new oil & gas fields, midstream oil infrastructure and oil fired power plants <ul style="list-style-type: none"> Oil & Gas Companies² <ul style="list-style-type: none"> No new direct investment in pure-play O&G Required commitment to net-zero from integrated O&G as of 2025³ | | No insurance for new oil & gas fields, midstream oil infrastructure and oil fired power plants ⁹ | | | | | | | | | | |
| 2025 | <table border="1"> <tr> <td>Total⁴</td> <td>–25% to –29% emissions</td> </tr> <tr> <td>Thermal coal⁴</td> <td>–35% emissions</td> </tr> <tr> <td>Oil and gas⁴</td> <td>–25% emissions</td> </tr> </table> | Total ⁴ | –25% to –29% emissions | Thermal coal ⁴ | –35% emissions | Oil and gas ⁴ | –25% emissions | <table border="1"> <tr> <td>–35% emissions⁵</td> </tr> </table> | –35% emissions ⁵ | <table border="1"> <tr> <td>–5% emissions Utilising the expertise of HSB Solomon¹⁰</td> </tr> </table> | –5% emissions Utilising the expertise of HSB Solomon ¹⁰ | <table border="1"> <tr> <td>–12% emissions per employee of the Munich Re Group</td> </tr> </table> | –12% emissions per employee of the Munich Re Group |
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| 2050 | <table border="1"> <tr> <td>Total</td> <td>Net-zero by 2050</td> </tr> <tr> <td>Thermal coal</td> <td>Full exit by 2040</td> </tr> </table> | Total | Net-zero by 2050 | Thermal coal | Full exit by 2040 | <table border="1"> <tr> <td>Full exit by 2040 (incl. Treaty insurance)</td> </tr> </table> | Full exit by 2040 (incl. Treaty insurance) | <table border="1"> <tr> <td>Net-zero emissions by 2050</td> </tr> </table> | Net-zero emissions by 2050 | <table border="1"> <tr> <td>Net-zero emissions by 2030</td> </tr> </table> | Net-zero emissions by 2030 | | |
| Total | Net-zero by 2050 | | | | | | | | | | | | |
| Thermal coal | Full exit by 2040 | | | | | | | | | | | | |
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| Net-zero emissions by 2050 | | | | | | | | | | | | | |
| Net-zero emissions by 2030 | | | | | | | | | | | | | |

1 Exceptions for companies with revenues in thermal coal between 15% and 30% are possible in individual cases, where an active engagement dialogue has been established with the company. 2 For direct investments in listed equities & corporates portfolio only. 3 For companies with highest relative and absolute emissions. 4 Based on sub-portfolio of equities, corporate bonds and real estate at the end of 2019. 5 "Produced tons of thermal coal / MW capacity of insureds" used as proxy for emissions: base year 2019. 6 On single location standalone risks. 7 On single location standalone risks, for mixed coverage above a certain threshold; 8 For exclusive coverages; for mixed coverages above a certain threshold; 9 Applicable for contracts/projects exclusively covering the planning, financing, construction or operation which have not yet been under production (fields) or construction or operation (infrastructure and plants) as of 31 December 2022. 6/7/8/9 exceptions can only be granted by board committee; 10 Operational property, scope 1-3 life-cycle emissions, base year 2019.

ESG in Underwriting

The Risk Landscape



Environmental

- Climate Change risks – physical, transitional, litigation
- Reputational Risks
- Climate Change Mitigation
- Climate Change Adaptation including EU Taxonomy
- Biodiversity

Social

- Labour and Human Rights
- Reputational risks

Governance

- ESG Governance
- Risk Management
- Transparency & Reporting e.g.
 - Corporate Sustainability Reporting (CSR)
 - Taskforce of Climate-related Financial Disclosures (TCFD)
 - Carbon Disclosure Project (CDP)
 - Annual Report / Non-financial statement (NFS)



Source: MR Stock Images



Physical Risks

Acute Risks

- Event driven
- Increased severity of extreme weather
- E.g. hurricanes, cyclones, floods

Chronic Risks

- Longer term shifts in climate patterns
- E.g. sustained high temperatures
- May cause rise in sea level or heat waves

Transition Risks

- Technology Risks
- Market Risks
- Policy & Legal (including Litigation)
- Reputational Risk

Litigation

Climate Change Liability

- Direct Climate Change Liability
- Indirect Climate Change Liability

Climate Change Litigation

- Motivation of plaintiff
 - Private Interest
 - Strategic cases
 - Investor claims
- Different defendants
 - Governments/Public entities
 - Corporations



Source: MR Stock Images

Environmental



Biodiversity

- SDG 13
“Take urgent action to combat climate change and its impact”
- Focus on Natural and Mixed World Heritage sites (approx. 250)
- Avoid or reduce negative impact on biodiversity hotspots for defined business areas

Social



Human Rights

Focus is on:

- Working Conditions
 - Avoidance of child labour,
 - Modern slavery
 - Health and Safety
- Equality and Non-discrimination
- Living Conditions
 - Protection of communities and/or indigenous people
 - Clean and healthy environment

Identify business that significantly harms a decarbonisation initiative

Fossil fuel business



Thermal coal: ...from exploration, extraction/mining, storage, transport, up to incl. powerplant



Oil/Gas: ...from exploration, extraction/production, storage, transport, processing, up to incl. refinery and powerplant

Munich Re Information need

For fossil fuel business:

Share of business (derived from the respective share of EPI / GNPI and/or Total Sum Insured / Total Insured Value) separately for oil/gas and thermal coal business.

Identify business that directly supports a decarbonisation initiative

Renewable and no/low carbon business

Exemplary enumeration:



- Renewables (biogas plants, geothermal risks, wind power plants, hydro power plants, solar power)
- Photovoltaics
- E-mobility, bicycles, e-bikes
- Energy storage via hydrogen technology
- Generation of synthetic fuels
- Electrolysers, battery storage P&C
- Carbon Capture and Usage / Storage (CCU/CCS)

For renewable and no/low carbon business (optional requirement)

Share of business (derived from the respective share of EPI / GNPI and/or Total Sum Insured / Total Insured Value).

Munich Re's strategic elements to net-zero in underwriting

Contribution to a just transition

ENABLING

- ✓ Insuring the transition
- ✓ Products & Solutions



Know-how and data sharing (SaaS)



Partnerships and co-operations (PPPs)



Sketching out decarbonization pathways



Own ambition



Policy Engagement



Underwriting criteria & analysis

DISABLING

Enhancing the resilience

Thank you for your attention!

18 May 2023

Tafadzwa Mugadza

"To outbalance the disabling effects in our portfolio, we need to push for the enabling aspect of ESG and develop new products and solutions together."

Sebastian Lemke, Head of Sales Excellence Development at Munich Re

NOT IF, BUT HOW



LIMA Programme

Your feedback is appreciated



Please visit: www.menti.com

Use the code: 2920 3548

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