Munich Re's approach to fossil fuels in underwriting and investment

Background

Munich Re adopts a forward-looking, prudent and responsible approach to business. For more than 140 years, we aim to create long-term value by assuming a diverse range of risks around the world. And we are convinced that this business concept will continue to be successful in the future through sustainable action. Our environmental, social and governance (ESG) activities are at the heart of this approach and strive to reconcile economic, environmental and social requirements. In this context, we rely on dialogue with our stakeholders and the establishment of global partnerships for sustainable development.

Munich Re is a pioneer in analysing the consequences of climate change in the financial services and insurance sector. For more than 40 years, it has dealt with climate change and the related risks and opportunities for the insurance industry. In the 1970s, as part of geo-risk research activities within the company, Munich Re began investigating the causes behind increasingly costly losses from weather-related natural catastrophes.

Our Group-wide objective is to contribute to achieving the goals of the Paris Agreement. Our strategy is based on three core elements comprising ambitious decarbonisation targets, comprehensive climate risk management, and the provision of innovative risk transfer solutions aimed at adapting to and mitigating climate change. These elements span our asset portfolio, our liabilities and our own operations. In addition, we leverage our knowledge in the climate sphere through global initiatives and partnerships.

Voluntary commitments, such as those we make to the UN Global Compact (UNGC), the Principles for Responsible Investment (PRI), the UNEP FI Principles for Sustainable Insurance (PSI) and – since 2020 – our membership of the Net-Zero Asset Owner Alliance (AOA), represent a key element of our sustainability strategy.

Munich Re's Climate Ambition 2025

With our Ambition 2025, we follow a science-based path to **net-zero carbon emissions**, and have set ourselves specific targets up until 2050 for our (re)insurance and investment[1] business, with 2025 marking a crucial first milestone.

With regard to decarbonisation targets, our Climate Ambition 2025 creates a holistic framework encompassing emissions associated with our assets, liabilities and our own operations. The IPCC's[2] Special Report on Global Warming of 1.5°C served as a central source of scenario narratives as well as emission pathways. It underlines the imperative to reach global peak emissions soon, but also the likely long-term necessity of carbon-removal technology innovations to achieve net-zero emissions by 2050.

[1] The Scope of application for own investments concerned is defined in the Responsible Investment Guideline.
[2] IPCC: Intergovernmental Panel on Climate Change

Liabilities

We have committed to a complete phase-out of the **insurance of thermal coal activities** by 2040. This applies to all primary and facultative direct (re-)insurance business. As a first milestone, we aim to reduce the corresponding carbon emissions of our insureds' activities by 35% by 2025 compared to the base year of 2019. The reductions are determined by the following key figures, which serve as a basis for an approximate calculation of the corresponding carbon emissions associated with the insured business of our clients: annual tonnes of thermal coal produced from mines and installed operational capacity in megawatts of thermal coal-fired power plants. As we plan to fully phase-out thermal coal by 2040 and apply this reduction path across all lines of business, no specific attribution of (re-)insurance associated emissions is applied. In general, 100% of the above approximative key figures on the insured level are applied to determine the base line as well as the reduction target.

In addition, Munich Re also aims to phase-out thermal coal in its reinsurance treaty business[3] by 2040.

In the **oil & gas production sector** (conventional & unconventional O&G), we have also committed to short-term (re-)insurance emission reductions in addition to the long-term target of net-zero by 2050. This applies to our facultative, direct and primary operational property business covering oil and gas production. Here, we have set a target to reduce our associated carbon emissions by 5% by 2025 relative to the 2019 base year. The quantitative emission reduction target is based directly on our own calculations of carbon emissions associated with our property insurance business. For this purpose, we calculate estimates for the scope 1–3 life-cycle carbon equivalent emissions of the oil and gas produced by clients associated with us through insurance policies. For these underlying estimations, we draw on the expertise of our subsidiary, HSB Solomon Associates LLC, which, in turn, uses the Oil Climate Index + Gas, an integrated open-source tool. In absence of standardized accounting methods for (re-)insurance associated emissions we in general attribute the emissions proportionate to our share of the known overall coverage of an individual insured and available data.

Assets

As an overall objective for our own direct investments, Munich Re set emission targets related to the asset classes of listed equities, corporate bonds and direct real estate based on the AOA's target-setting framework. As an intermediate step, financed net greenhouse gas emissions in the foregoing asset classes shall first be reduced by 25–29% by 2025, before we achieve our target of net-zero emissions by 2050. This is complemented by specific targets for coal, oil and gas.

For our own investments, consistent with the insurance side of our business, we have committed to a complete phase-out of direct **thermal coal investments** by 2040. Furthermore, specific reduction targets were set for direct investments in listed equities and corporate bonds: For **thermal coal investments** (e.g. mining, power generation) we aim to reduce financed emissions by at least 35% by 2025 (base year 2019).

Further, specific reduction targets for **oil and gas investments** were set for direct investments in listed equities and corporate bonds: we aim to achieve a reduction in financed emissions of more than 25% by 2025 (base year 2019).

[3] Treaty business contains whole insurance portfolios from primary insurance companies that are reinsured as a whole.

Our fossil fuel-related underwriting and investment restrictions

Since September 2018, in our primary insurance and facultative and direct **(re)insurance business**, we no longer insure single location standalone risks in the planning, financing, construction or operation of **new thermal coal mines, coal-fired power plants and the associated infrastructure** where construction, preparatory works for the extraction or operation has not started before 1 September 2018. Multi-location covers will be treated like single location risks, if the majority of locations or insured values qualify as new.

For our own investments, Munich Re has already ceased directly investing in equities and bonds from listed companies that generate more than 30% of their revenue from **thermal coal** mining and/or the generation of electricity from thermal coal firing. Equities and bonds from listed companies that generate 15% to 30% of their earnings from these activities are also excluded or, in individual cases, encouraged in their switch to renewable energy sources in the context of an engagement dialogue.

In the area of oil and gas production, in 2019, Munich Re Group extended its fossil fuel exit strategy to **oil sands on both the insurance and asset side**: It is no longer allowed to sign facultative reinsurance and primary insurance business (direct and via fronting) of new & existing oil sand sites and new & existing oil sand-related infrastructure. Our guideline applies to single-location and stand-alone risks, for mixed policies we defined a threshold, provided that whole share of sum insured/direct revenue from the exploration **exceeds 20%**.

For our own **investments**, Munich Re does not directly invest in equities or bonds of listed companies that derive more than 10% of their revenues from the **mining of oil sands**.

Regarding **Arctic exposures**, we will not accept stand-alone covers for Arctic oil and gas drilling activities including related infrastructure and installations. This also applies to mixed covers and reinsurance treaty business that contain exposures to the above activities exceeding a defined minimal threshold, as of 1 January 2022 (for renewals of existing reinsurance treaty business as of 1 January 2023). Munich Re's definition of the Arctic region is based on the internationally accepted definition of the Arctic by the Arctic Monitoring and Assessment Programme (AMAP)[4]. Our policy allows minor exceptions in the Norwegian region south of the Arctic Circle, as Arctic conditions do not prevail there. Any exceptions to the above policy in this paragraph are subject to mandatory approval by the responsible Board Committee. This underlines once again that Munich Re is aware of and fulfils its responsibility to protect the environment.

For **infrastructure investments,** direct investments in oil and gas exploration and drilling within the Arctic region are not allowed.[5]

[4] For our own investments, the Arctic Region definition includes both AMAP and AHDR.
[5] For the detailed definition of the Arctic Region for investments please refer to the Responsible Investment Guideline.

Further, as of 1 April 2023 Munich Re will no longer invest in or insure **contracts/projects exclusively covering** the planning, financing, construction or operation of

- **new oil** and **gas fields**, whereas at 31 December 2022 no prior production has taken place or
- **new midstream infrastructure** related to **oil**, which have not yet been under construction or operation as at 31 December 2022 and
- **new oil fired power plants**, which have not yet been under construction or operation as at 31 December 2022

This applies to direct illiquid investments, our primary insurance and facultative and direct (re)insurance business. The same applies where such risks are contained or bundled in one cover together with other risks (e.g., existing oil or gas fields), but which cover is mainly designed to protect one or more of such new risks.

Furthermore, in its own listed equities & corporates portfolio, as of 1 April 2023, Munich Re will cease to conduct new direct investments in pure-play Oil & Gas companies[6]. As of 1 January 2025, Munich Re will require a credible commitment to net-zero greenhouse gas emissions by 2050 including corresponding short- and mid-term milestones from listed Integrated O&G companies with the highest relative and absolute emissions[7].

Munich Re may choose to selectively invest in green bonds issued by Oil & Gas companies which are compliant with an accredited Green Bond Framework (such as ICMA Green Bond Principles or future EU Green Bond Standards).

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[6] We define pure-play Oil & Gas companies as listed companies allocated to the Global Industry Classification Standard (GICS) Oil & Gas Subindustries except *Integrated Oil & Gas.*

[7] Cumulatively, we are capturing at least 85% of the combined absolute CO_2 equivalent Scope 1 + 2 emissions of Integrated Oil & Gas companies based on 2020 data provided by ISS ESG.