Regulatory Challenges cDays

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A major wave of new regulations is hitting us

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- Financial reporting
- Cyber security
- ESG
- Risk model

IFRS 17
Global

EU taxonomy
EU

Global minimum taxation
Global

CSRD
EU

ISSB
Global

DORA
EU

Green Bond Standard

Supervisory requirements for IT in insurance undertakings
Germany

Cyber security requirements for financial service companies
US

CPS 234 information security
Australia

EIOPA climate stress test
EU

Solvency II review
EU

... and many more

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Failure to comply will lead to material consequences

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Full compliance with regulations will be a real competitive advantage

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IFRS 9 /17

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01

IFRS 9/17 is a landmark change

Addressing shortcomings of the former accounting regime

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IFRS 9/17 better reflects economic earnings power of Munich Re's business model.

Consistency
Market-consistent valuation to solve systematic IAS 39/IFRS 4 accounting mismatches.

Clarity
Insurance business is clearly separated from investment-type contracts.

Transparency
Disclosure of future profit margins from long-term business.

No Impact On

- Business strategy
- Dividend and share buy-back policy
- Prudent reserving strategy
- Local GAAP (HGB)/Solvency II
- Capital strength

Accounting changes do not alter Munich Re's DNA

Benefits of IFRS 17 are supposed to overweigh

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Challenges

- Principle-based standard with no clear guidance
- High granularity of coverage units immensely increasing implementation effort
- Tight collaboration of accounting and actuarial departments necessary
- Potentially IT-landscape needs to be reviewed, updated or even replaced
- Workload decreases during implementation of new standard and might remain for reporting in two standards
- New target operating model needs to be established

Advantages

- Better comparability amongst insurers through alignment of valuation principles
- Better comparability with other industries through aligned revenue recognition
- Higher transparency through aligned presentation and disclosures
- Use of current information and time value of money
- Incorporating value of new business and the present value of future profits, with smoothing profits, but accelerating the recognition of losses
- Build-up of consistent IT-landscape

MR View

IFRS 17 program was mandated to **establish a group-wide solution** at minimal costs

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Program objectives

- Conformity with accounting standards
- Comparability with competitors
- Fair presentation
- Close correspondence between legal and segment view (only differences in granularity)
- Low level of granularity in the balance sheet and income statement (detailed information only in the notes)
- Cost of implementation

Set-up rationale and benefits

- Group-wide optimisation of target IT architecture, e.g., centralised calculation and posting solutions or harmonised accounting rules
- Actuarial modelling aligned where appropriate
- Strong involvement of the international entities to target one global approach and process
- Creation of future options regarding Target Operating Model
- IFRS 17 system landscape as core component of the future finance landscape, such as Solvency II optimisations

IFRS 17 program caused heavy **workload**, but was used for the **further streamlining and digitisation** of the finance function

Impact of IFRS 9/17 on Munich Re	Uniform, centralised approach of the Munich Re Group
> 100 entities	Identical interpretation of standards in all business segments
> 250 bn € AuM	Group-wide harmonisation of accounting and actuarial processes
> 50 IT systems	One uniform IT landscape throughout the Group
> 50 mn contracts	Central and identical processes for consolidated and local separate financial statements
	Increased automation and use of Group-internal synergies

Munich Re‘s IFRS 17 program serves IFRS compliance and transformation of finance function.

ESG

Image: John Lund / Getty Images

02

Creating value through global sustainability

Holistically integrating ESG across our organisation

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Environmental

Ambitious decarbonisation targets

- Climate targets for our (re)insurance business
- Decarbonisation of our investments
- Reduction of our own emissions

Climate-related disclosure

- Aligned with the Task Force on Climate-Related Financial Disclosures (TCFD)
- Analysing the consequences of climate change for more than 40 years

Social

Diverse workforce

- 40% managers to be female by 2025
- 25% women in BoM by 2025
- 110+ nationalities

Employer of choice

- Comprehensive training and development programmes
- Measuring employee satisfaction
- Promoting digital culture and shaping new ways of working

Governance

ESG criteria in BoM remuneration

ESG criteria relevant for variable remuneration and multi-year bonus.

Sound ESG governance

Board-Level “ESG Committee” and high- level “ESG Management Team” with top managers from different business fields.

Winner in Governance ranking

“Excellent“ rating in the 2022 DVFA Scorecard for Corporate Governance, first rank of DAX 40 companies.

New regulation **demands new sustainability reporting** at Group level

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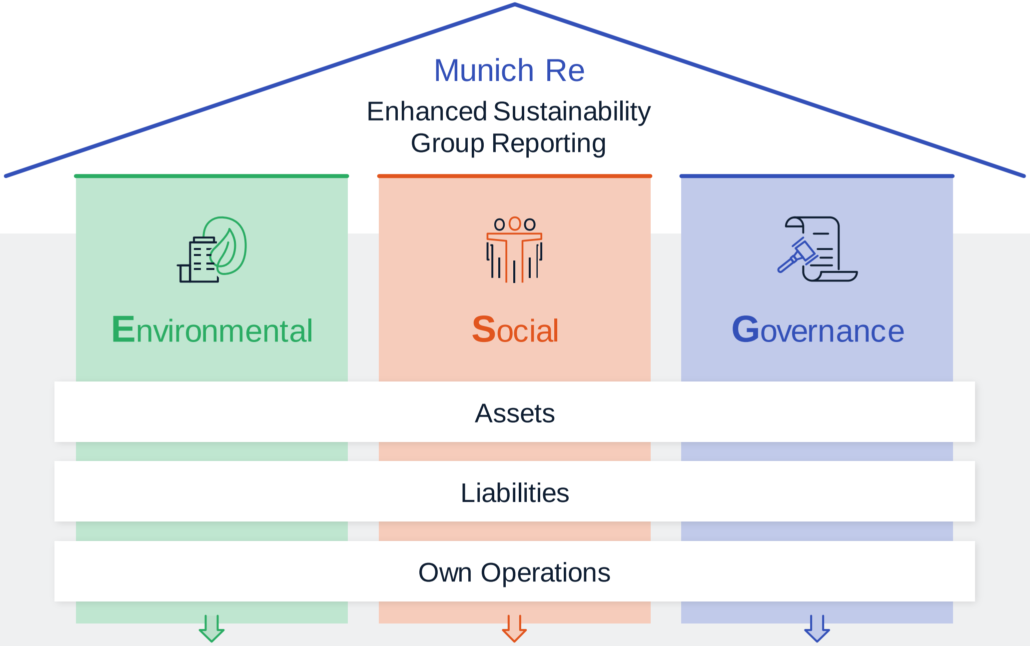
Main **triggers** for enhanced sustainability Group reporting

- **New EU regulations**: Taxonomy & CSRD (Corporate Sustainability Reporting Directive), ESRS (European Sustainable Reporting Standards)
- **International regulations**: ISSB (International Sustainability Standards Board)
- **Ambition 2025** of MR Group
- **External shareholders** and rating agencies are demanding for more KPIs, higher assurance level
- EIOPA announced new sustainability QRTs as part of Solvency II reporting



Non-centrally covered ESG data need to be reported from local entity to central sustainability systems by enhanced existing or new reporting processes.

Overview of **disclosure requirements for FY 2024** (first set of ESRS)

Further insurance-specific standards currently expected in 2025 (for NFS 2026)

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ESRS SET 1

Cross-cutting Standards

ESRS 1 - General Requirements
General requirements for preparing and presenting sustainability-related information

ESRS 2 - General Disclosures *(mandatory)*
General disclosure requirements on Governance, Strategy, Impact, Risk and Opportunity Management, Metrics and Targets

Sector-agnostic Standards

Environment

- ESRS E1 - Climate Change
- ESRS E2 - Pollution
- ESRS E3 - Water and Marine Resources
- ESRS E4 - Biodiversity and Ecosystems
- ESRS E5 - Resource Use and Circular Economy

Social

- ESRS S1 - Own Workforce
- ESRS S2 - Workers in the Value Chain
- ESRS S3 - Affected Communities
- ESRS S4 - Consumers and End-Users

Governance

- ESRS G1 - Business Conduct

Entity-specific disclosure

Entity-specific disclosures to be defined if not yet addressed in sector-agnostic standards

More than 80 Disclosure Requirements including ~ 1000 data points[1]

Materiality assessment defines the scope for reporting

1: A data point can be any required information, e.g. a KPI or a description of a policy

Sustainability Reporting Program

Current focus on implementation of EU taxonomy and Ambition 2025

Current project structure of the Sustainability Reporting Program:

Thank you for your attention!

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