Corporate responsibility in business at Munich Re

Renate Bleich
Global Head of Sustainability

Paris, 16 March 2018
A strong commitment towards corporate responsibility

International co-operations

**UNEP FI** (since 1999)
Munich Re has signed the UNEP FI’s climate declaration.

**UN Global Compact** (since 2007)
Munich Re has been a member of the UN Global Compact since August 2007. The ten principles of the UN Global Compact provide guidance for action in our business and set the basis for our corporate responsibility activities.

**Principles for Responsible Investment (PRI)** (since 2006)
Munich Re actively developed the UN Principles for Responsible Investment (PRI), which it signed in April 2006 – the first German company to do so.

**Principles for Sustainable Insurance (PSI)** (since 2012)
Munich Re played an active part in developing the Principles for Sustainable Insurance (PSI) since 2007 and was a founding signatory in June 2012. The PSI aim at anchoring ESG criteria in the core business along the value chain.
Principles for Sustainable Insurance (PSI) – A voluntary and aspirational global framework for the insurance industry

Principles for Sustainable Insurance

1. Embed ESG in decision-making along the value chain
2. Work together with clients and business partners to raise awareness, reduce risk and develop solutions
3. Engage with governments, regulators and other key stakeholders
4. Demonstrate accountability and transparency
Reconnecting Corporate Responsibility activities with the business creates shared value – for the company and society

The concept of shared value …

- Shared value creation focuses on connecting societal and economic progress
- Responsible behaviour increasingly relevant for competitive advantage – companies need to do good and do it well

… how we live it at Munich Re

- Corporate Responsibility in Business
- Environmental management
- Social impact projects
- Reporting and communication

Creating Shared Value (2011), Michael E. Porter and Mark R. Kramer

Source: ESP1.2
Corporate responsibility in business

Our business activities contribute to achieving the Sustainable Development Goals

- HDFC ERGO offer microinsurance policies in the rural sector in India (e.g. weather-indexed, health, personal accident & fire, special policies for farmers)
- Public-sector risk transfer solutions (e.g. Pandemic Emergency Financing Facility)
- Digital Doctor App
- Renewable energy and energy efficiency solutions by Green Tech Solutions (e.g. solar performance warranty and option cover for photovoltaic)
- City Innovation Platform
- Earthquake/landslide risk protection of Indian city by Munich Re & GeoHazards International
- Partnership with Institute for Business and Home Safety: improved safety and construction standards for buildings in the US
- Public-sector risk transfer solutions (e.g. Caribbean Catastrophe Risk Insurance Facility, African Risk Capacity, Pacific Catastrophe Risk Assessment and Financing Initiative)
- Climate KIC
- Solarkiosk

- Crop failure insurance by System Agro
**Definition of environmental, social and governance (ESG) aspects at Munich Re**

<table>
<thead>
<tr>
<th>Environment</th>
<th>Social</th>
<th>Governance</th>
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</thead>
<tbody>
<tr>
<td>- Pollution</td>
<td>- Political context and public awareness</td>
<td>- Responsible and correct planning</td>
</tr>
<tr>
<td>- Natural resources and biodiversity</td>
<td>- Labour and working conditions</td>
<td>and evaluation</td>
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<td></td>
<td>- Health, safety and security for the community</td>
<td>- Compliance</td>
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<td></td>
<td>- Displacement of people</td>
<td>- Consultation and transparency</td>
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<td></td>
<td>- Cultural heritage</td>
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</tbody>
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Corporate responsibility in business at Munich Re, March 2018
Sensitive issues, Munich Re position and measures

**Banned Weapons**
Policy on cluster munition and land mines, part of GUGL

**Investments in Farmland**
Mandatory ESG check for investments

**Arctic Drilling**
Guideline, risks to be referred to Arctic Drilling Panel

**ESG Tool**
Assessment of different industries, best practice in credit/surety

**Oil Sands**
Position paper, referenced in GUGL

**ESG country rating**
ESG information included in Munich Re Country Risk Assessment

**Fracking**
Position paper, referenced in GUGL

**Currently in development**
→ new sustainable asset management approach

**Mining**
Position paper referenced in topic paper mining
Based on Sustainalytics’ “Country Risk Monitor” with sustainability ratings for 165 countries, covering 31 indicators. This tool is used by MEAG for sustainability rating of sovereign bonds and offered as an additional resource to underwriters in Reinsurance.
# ESG criteria for engineering projects – Tool implemented as best practice

## ESG Criteria Evaluation

### Risks
- **Mining**

### Environmental Implications
- **Pollution prevention**
  - Check if the substances used in processing (e.g., cyanide in many gold mines) do not form part of a closed-loop process.
  - Check if possible risks to groundwater (e.g., from spoil-heap leaching) have not been examined beforehand and appropriate measures taken.
  - Check if the mine poses a risk to the environment (including in the long term).
- **Conservation of natural resources and biodiversity**

### Social Implications
- **Political context and public awareness**
- **Labour and working conditions**
- **Health, safety and security for the community**
- **Displacement of people**
- **Cultural heritage**

### Governance Implications
- **Responsible and correct planning and evaluation**
- **Compliance**
- **Consultation and transparency**

## Final assessment

### Web links for further information
- Munich RE
- Morgan Stanley sustainable Index
- Corruption perceptions index
- Labour standards database
- UNESCO world heritage list

[1] Check this box if the available and applicable web links explain why a comment is relevant.
[2] Check this box if no applicable information is available.

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*Corporate responsibility in business at Munich Re, March 2018*
Reputational risk committees for escalation of controversial single underwriting cases

Reputational risk committee (RRC)

### Mission
- Consultation of business segments
- Analysis and assessment of individual cases

### Examples of requests
- Investment in / (re)insurance of specific entities / Groups
- (Re)insurance of potentially polluting projects
- (Re)insurance of projects in specific countries
- Insurance of clinical trial participants
- Critical products

### Working mode
- Reporting of critical issues prior to closing of a deal
- RRC responds within 48 hours, giving clear guidance
- Escalation to Board of Management by RRC coordinator in case of non-compliance

Reputational risks are monitored and steered within RRCs
Environmental management

Carbon neutrality based on environmental management and CO₂ emission reduction

Our steps to carbon neutrality

Data gathering and measuring CO₂ emissions → since 2015 externally verified by a third party

Reduction of CO₂ emissions by saving energy, water, paper, waste and business travel and improving carbon impact of consumed goods and services

Substitute conventional electricity by green electricity

Compensate remaining CO₂ emissions through purchasing carbon credits

A Group-wide environmental management system is in place and approx. 80% of employees are covered

Target Munich Re Group 2020: –35% CO₂ emissions per employee since 2009 → 2017 > –35% CO₂ reduction

Target Munich Re Group 2020: 100% electricity is from renewable sources → 2017 > 71% electricity used from renewable sources

Since 2015: Munich Re Group is carbon neutral
Shared value is the guiding principle of our social impact activities

Example CR social impact project

- We find and support solutions for adapting to and mitigating climate change
- We cooperate with innovative partners
- Munich Re and ERGO are pooling their resources
- We offer experience, expertise and financial support

Two partners


Together with the EU’s main climate innovation initiative, Munich Re and ERGO are fostering cleantech start-ups during several batches. First batch started in October 2017. Next batch starts in April 2018.
# External communication and reporting

<table>
<thead>
<tr>
<th>Corporate Responsibility Portal</th>
<th>Combined non-financial statement</th>
<th>Sustainable Responsible Investment Ratings</th>
</tr>
</thead>
</table>

Corporate responsibility in business at Munich Re, March 2018
The Sustainability Department is a central function at Munich Re

Structure

Sustainability is a central function located in ESP which directly reports to the CEO

Sustainability triggers, monitors, controls, enables and manages Group-wide sustainability-related tasks

Business units implement strategy at local level with Sustainability departments/coordinators, environmental managers, etc.

Group Corporate Responsibility Committee (GCRC) as panel to monitor Shared Value Strategy and as Group Task Force for sensitive business issues
### New remuneration system for the Board of Management from 1 January 2018

<table>
<thead>
<tr>
<th>Component</th>
<th>Share</th>
<th>Assessment basis/parameters</th>
<th>Corridor</th>
<th>Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic remuneration plus remuneration in kind/fringe benefits</td>
<td>50%</td>
<td>Function, responsibility, length of service on Board</td>
<td>Fixed</td>
<td></td>
</tr>
<tr>
<td>Variable remuneration</td>
<td>50%</td>
<td>Overall result of Company, result of line of business, individual performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30% Annual bonus (for evaluation of 100%)</td>
<td></td>
<td>IFRS consolidated result Munich Re Group</td>
<td>0–200% (fully achieved = 100%)</td>
<td>Achievement of annual target</td>
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<tr>
<td>Bonus plan with runtime of 1 calendar year</td>
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<tr>
<td>70% Multi-year bonus (for evaluation of 100%)</td>
<td></td>
<td>MR total shareholder return (TSR) compared to a defined peer group</td>
<td>0–200%</td>
<td>Performance of MR share in relation to peer group</td>
</tr>
<tr>
<td>Bonus plan with runtime of 5 calendar years</td>
<td></td>
<td>(Peer group: Allianz, Axa, Generali, Hannover Re, SCOR, Swiss Re, Zurich) peers usually used for the analysts’ conference</td>
<td></td>
<td>Overall performance evaluation: Target achievement adjusted to take account of factors including</td>
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<td></td>
<td>– individual and collective management performance</td>
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<td></td>
<td></td>
<td>– situation, success and future prospects of Company</td>
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<td>Addition/deduction of up to 20% points</td>
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</tbody>
</table>

1 For the variable remuneration, the share shown is based on an evaluation of 100%.
## Criteria for the evaluation of overall performance (Examples for bonus / malus aspects)

**Individual management performance**
- Result of division/line of business, contribution to overall performance
- Individual performance (qualitative and/or quantitative)
- ESG criteria (environmental, social and governance)
- Employee satisfaction
- Any malus factors taken into account
- Special market circumstances or unexpected developments taken into account
- Implementation of strategy, improvements in organisation and processes, innovation
- Conduct (leadership, example set, compliance with guidelines, working relationship with colleagues and Supervisory Board)

**Collective management performance**
- Result of field of business (reinsurance and/or primary insurance)
- ESG criteria (environmental, social and governance aspects)
- Employee satisfaction
- Any malus factors taken into account
- Reaction to special market circumstances and unforeseeable developments

**Situation, success and future prospects of Company**
- Financial situation of Company
- Short-term and long-term profit outlook
- Market environment (interest rates, situation in sector, etc.)
This presentation contains forward-looking statements that are based on current assumptions and forecasts of the management of Munich Re. Known and unknown risks, uncertainties and other factors could lead to material differences between the forward-looking statements given here and the actual development, in particular the results, financial situation and performance of our Company. The Company assumes no liability to update these forward-looking statements or to make them conform to future events or developments.