

# ESG – issues for underwriters/insurers

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# Economics of climate: no action not an option

Study by Swiss Re Institute published in April 2021:

- Climate change is biggest long-term threat to global economy.
- **Economies in South East Asia are most vulnerable to climate change effects:**
  - Raising temperatures leading to extreme weather risks.
  - Lost labour & agricultural productivity.
  - Relative lack of adaptive capacity.
- **Malaysia could face potential loss of 36% of GDP by mid-century in baseline scenario of 2-2.6 degree temperature rise.**



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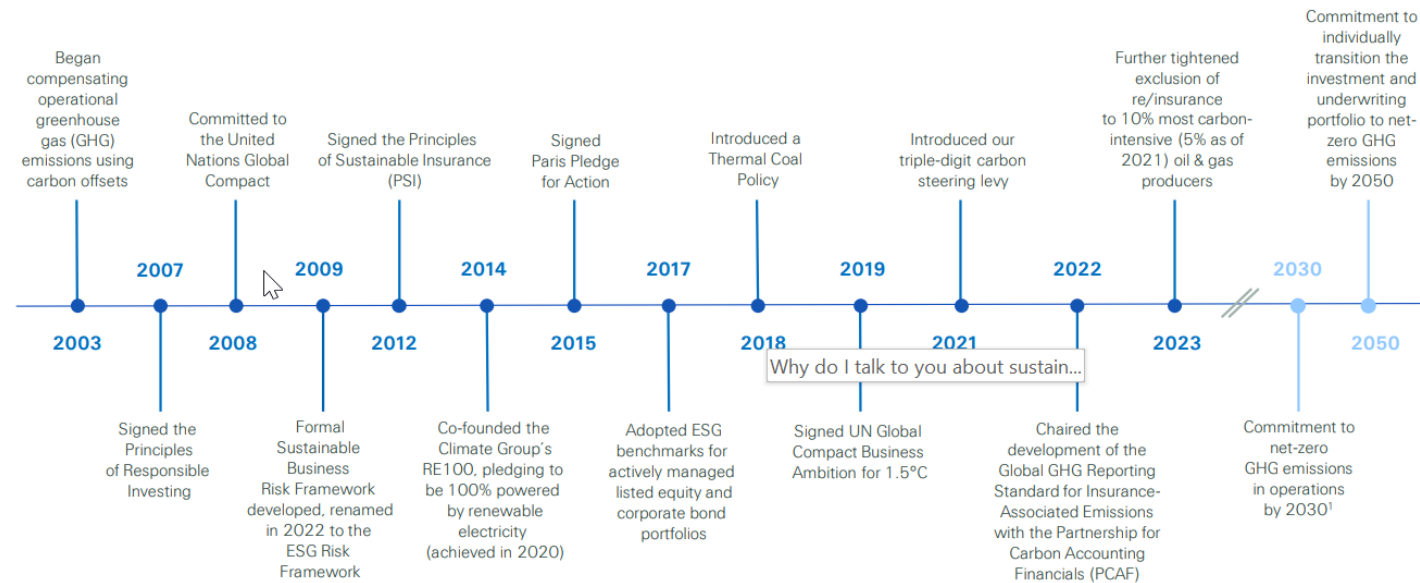
# Introduction

- Swiss Re's sustainability milestones.
- Sustainability risk as part of Sustainability strategy.
- Elements of Sustainability strategy.

# Why do I talk to you about sustainability?

## Some key sustainability milestones of Swiss Re

### Selection of key sustainability milestones and outlook



<sup>1</sup> The commitment was based on the following definition of net zero, applied to Scope 1, 2 and selected categories in Scope 3: for every tonne of GHG that cannot be avoided, an equivalent amount of CO<sub>2</sub> needs to be removed from the atmosphere and stored permanently

Sustainability risk – part of sustainability strategy

**In order to properly understand and underwrite sustainability risks they need to be part of a comprehensive Sustainability Strategy.**

# Potential elements of a Sustainability strategy – Sustainability mission, ambitions & enablers

## Group Sustainability Strategy 2023–2025



# Understanding sustainability risks

- Reasons to look closer at sustainability risks
- Environmental, Social & Governance (ESG) framework.
- Umbrella guidelines & Sector-specific policies.



# Reasons to look closer at the sustainability of underwriting



Regulator's  
call



Reputational  
risk



Growth driver



Putting  
strategy into  
action



Improved risk  
selection

Swiss Re's **ESG Risk Framework** enables us to **identify, assess and address** ESG risks potentially associated with our transactions<sup>1</sup>

Umbrella  
guidelines

**Environmental**  
We don't do business with entities that cause **irreversible damage to the environment** and ecologically **sensitive areas**.

**Social & Human Rights**  
We don't do business with entities that are complicit in severe **human rights violations**.

**Governance**  
We don't do business with entities that damage the environment or violate human rights through **poor corporate behaviour**.

**Sector-specific policies**

to provide further guidance for the ESG risk assessment considering the specifics of certain industries



**Agriculture, Forestry & Food**



**Defence**



**Hydro Dams**



**Mining**



**Nuclear Weapons Proliferation**



**Oil & Gas**



**Thermal Coal**

<sup>1</sup> Where information granularity is available and allows for a meaningful ESG risk assessment.

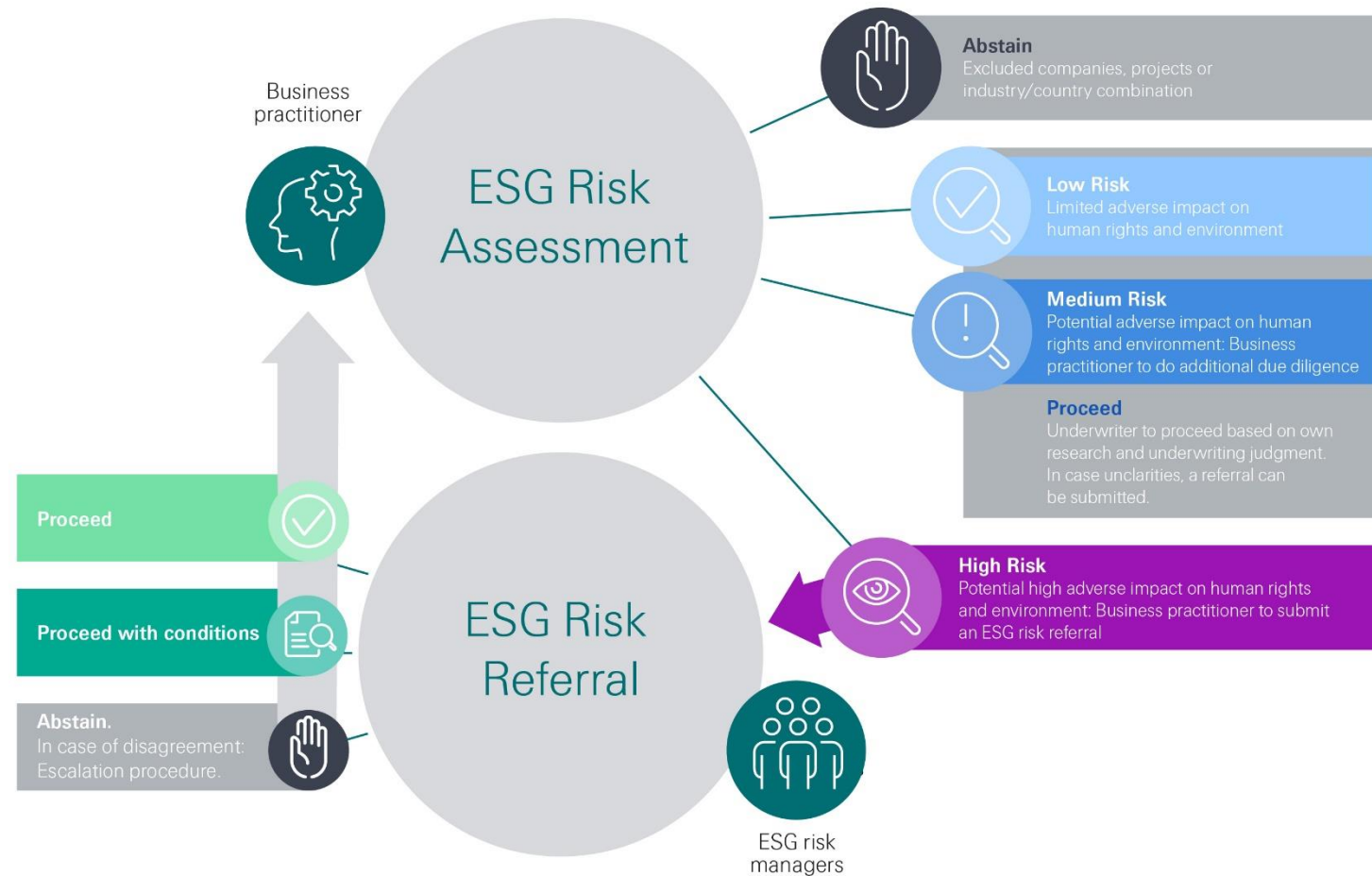
# ESG Risk Framework

- **Enables us to identify, assess and address** ESG risks potentially associated with our transactions since 2009
- Consists of **3 umbrella guidelines** and **7 sector-specific policies**
- Applies across all business activities, including re/insurance transactions and investments, where information granularity is available, and a meaningful ESG risk assessment is possible.
- **Semi-automated due-diligence process** that is embedded in our standards and operating procedures for facultative and direct business.

Swiss Re has a robust framework to manage ESG risks



# ESG Risk Management Process for facultative and direct business underwriting



# Umbrella Guidelines

# 01



# Environmental Umbrella Guideline to address and minimize possible impacts on the environment, biodiversity and climate

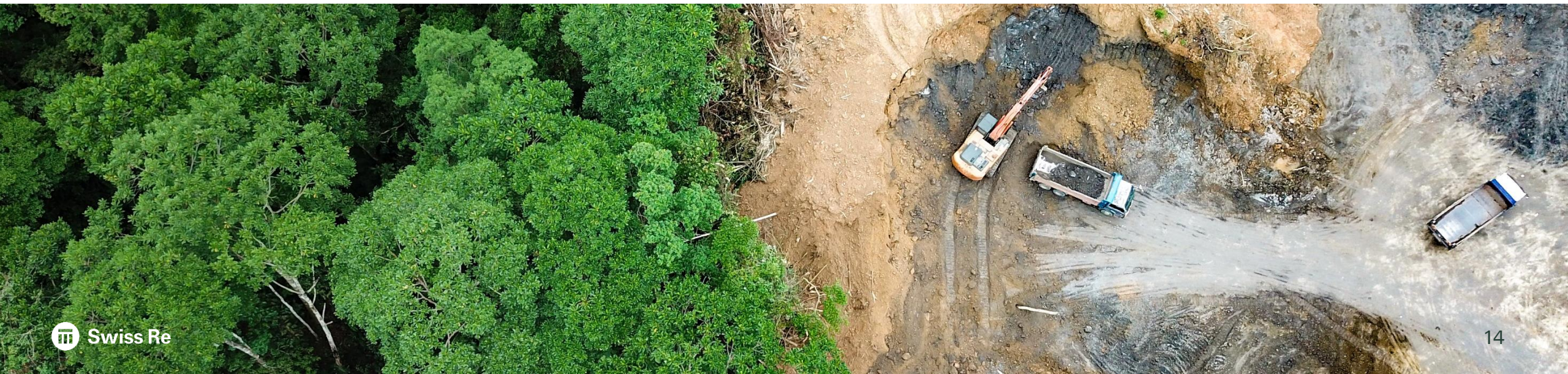
## Risks

- Climate change
- Biodiversity decline
- Threat to ecosystem services
- Pollution and waste
- Resource depletion
- Animal mistreatment

## Exclusions

We do not support business activities that

- Cause severe **harm to climate** by activities and lag peers with regards to greenhouse gas emissions;
- Negatively **impact biodiversity**, by causing conversion or degradation of **UNESCO World Heritage Sites and /or IUCN protected areas**, or habitats for the endangered species on the IUCN Red list; or
- Have severe and systematic **pollution or waste issues** that damage environment and health.



# Social / Human Rights Umbrella Guideline to avoid human rights violations or potential adverse impacts on society

## Risks

- Violation of absolute rights and freedoms
- Violations of labour rights
- Impact on local communities, indigenous peoples, minorities, women, children, migrant workers, refugees
- Armed conflict

## Exclusions

We do not support business activities that

- **Violate absolute rights and freedoms**, such as freedom from slavery and servitude; or
- **Violate labour rights**, such as poor health and safety; or
- **Negatively impact local communities** and the **rights of specific groups of people**, such as the right of free, prior and informed consent for indigenous peoples (**FPIC**)
- Involve high-risk industries in countries where **human rights are violated** in a severe and systematic way without positive proof that human rights are respected; or



# Governance Umbrella Guideline to mitigate governance issues that adversely affect human rights or the environment

## Risks

- Poor corporate governance
- Poor corporate behaviour such as:
  - Bribery
  - Corruption
  - Money-laundering

## Exclusions

We do not support business activities that

- Severely and **systematically damage the environment or violate human rights through financial crime** such as bribery, corruption, or money-laundering.





# Sector-specific Policies

# 02



# Hydro Dam Sector Policy

## Risks

In addition to the ESG Umbrella Guidelines, Swiss Re is concerned about:

- Negative impacts on human rights as well as **local and downstream communities** (relocation, reduced access to water, fisheries and other resources)
- Negative impact on biodiversity and ecosystems by **trapping sediments, altering river's natural flow and blocking fish migration routines**

## Sector-specific exclusions

We will not provide business support to entities or projects with:

- Violent or **forced relocation** without compensation;
- **Irreversible environmental damage** beyond necessary conversion; or
- Absence of credible environmental and social impact assessments for large-scale greenfield projects.

## We view favourably

- Companies that adhere in international best practices, such as the International Hydropower Sustainability Guidelines and the Hydropower Sustainability Standard developed by the Hydropower Sustainability Association





# Thermal Coal Sector Policy

## Background

- Swiss Re supports worldwide reduction of greenhouse gas emissions and is **committed to Net Zero by 2050**
- The introduction of the thermal coal policy in 2018 marked a first step towards *carbon risk steering*
- The implementation will follow a *staggered approach* until 2023 to support the transition to a low carbon economy

## Risks

In addition to the ESG Umbrella Guidelines, Swiss Re is concerned about:

- Thermal coal contributes significantly to global emissions that exacerbate climate change and has a negative impact on human health

## Sector-specific exclusions

We will not provide business support to entities or projects that:

- Have more than **30% of exposure to thermal coal** for direct and facultative business.
- From 2023, **treaty** business exceeding line-of-business-specific exposure threshold of thermal coal will be gradually lowered



## Ambitions

- Total phase-out of thermal coal related re/insurance and investments in OECD countries by 2030 and in the rest of the world by 2040



# Oil & Gas Sector Policy

## Background

- Swiss Re supports worldwide reduction of greenhouse gas emissions and is committed to Net Zero by 2050.

## Risks

In addition to the ESG Umbrella Guidelines, Swiss Re is concerned about:

- Lifecycle carbon dioxide (CO<sub>2</sub>) emissions resulting from oil & gas production
- Arctic drilling activities & hydraulic fracturing

## Sector-specific exclusions

Swiss Re has introduced the following measures:

- No individual re/insurance cover for oil & gas companies that produce the **world's 5% most carbon intense oil & gas**; this threshold will increase to 10% in July 2023;
- No individual re/insurance cover or direct investment in **new oil & gas field projects**<sup>1</sup>; or
- No individual re/insurance for companies and projects with more than 10% of their production located in the Arctic AMAP region<sup>2</sup>

<sup>1</sup> – effective after 2022 and once the Science Based Target initiative have issued guidance on target setting for upstream oil and gas sector.

<sup>2</sup>- Norwegian production is exempt.



## Ambitions

- By 2025 half of our overall direct and facultative premium income will come from companies that are aligned with net-zero by 2050;
- By 2030, Swiss Re's oil and gas re/insurance portfolio will only contain companies that are aligned with net-zero by 2050

# Sustainability as growth opportunity

- Insurance as a facilitator.
- Solar Energy Shortfall Insurance (SESI) in Malaysia.

# Insurance as a facilitator – Launch of Solar Energy Shortfall Insurance (SESI) in Malaysia

Energy Procurement

## Etiqua launches the first insurance plan in Malaysia to protect against shortfalls in solar energy output

Energy Asia  
Team Energy Asia  
25 May 2023  
428 words  
English  
BMENER  
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Etiqua has launched Solar Energy Shortfall Insurance (SESI), the first of its kind in Malaysia that will compensate insured solar farm operators for financial losses arising from any shortfall in solar energy production due to the reduction in solar irradiation, or reception of light energy from the sun. The plan is underwritten by Etiqa General Insurance Berhad.

As solar farms are dependent on sunlight for solar energy, frequent occurrences of cloud cover in the sky, or bad weather may obstruct direct sunlight from reaching solar panels resulting in irregular solar panel energy output.

SESI has been designed to provide ease of mind for solar farm operators by providing coverage for any shortfall in revenue and profit which was projected based on future solar panel energy production.

The measurement standards are based on both input (solar irradiation) and output (energy generated production) because the shortfall of energy production is significantly correlated to the reduction in solar irradiation.

# Key takeaways

## Key points to remember

No action is not  
an option

Sustainability  
underwriting  
needs to be  
embedded in  
sustainability  
strategy

Sustainability is  
both a risk and  
an opportunity





Any questions?

# Thank you!

## Contact us



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