

Understanding Sustainability Risk

Marcel Omar Papp (Swiss Re), 23 June 2021, JC3 Flagship Conference



Let's assume we
are in the year
2050



**“Malaysia’s GDP has
reduced by 30% in
the past 30 years
due to climate
change”**

The Star, 23 June 2050

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**.



Table of Contents

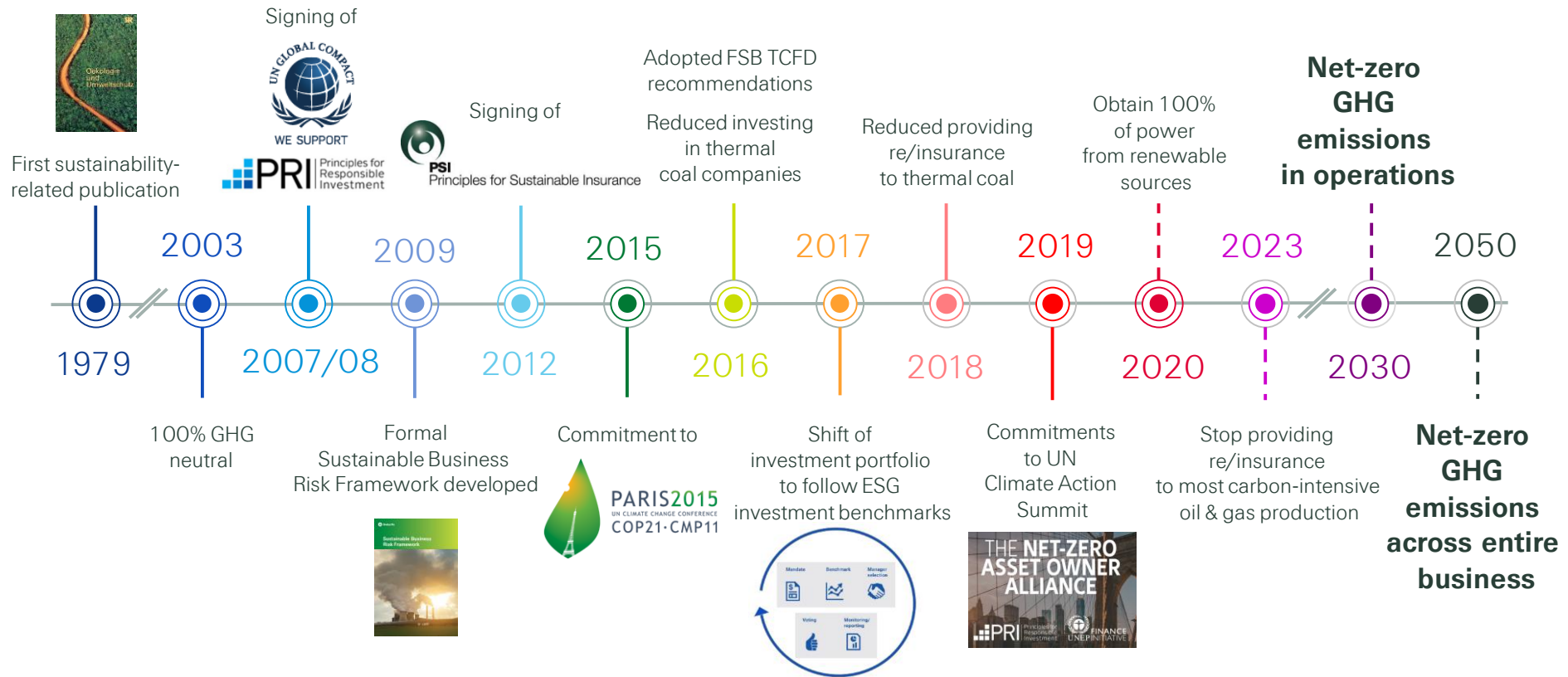
Introduction	06
Understanding sustainability risks	10
Sustainability as growth opportunity	17
Summary	23

Introduction

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

Why do I talk to you about sustainability?

Swiss Re has a long tradition of sustainability



An aerial photograph of a river meandering through a vast, dense green forest. The river is a light blue color, contrasting with the deep green of the trees. The forest appears to be a mangrove or a similar wetland environment.

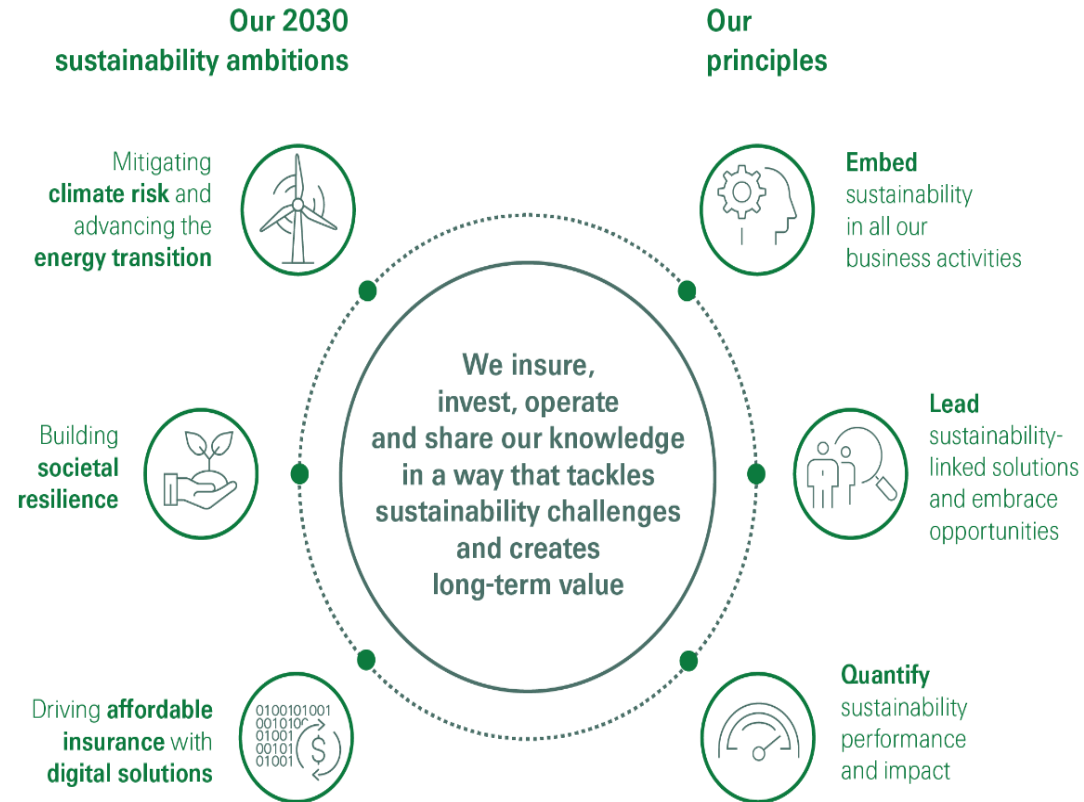
Sustainability risk - part of sustainability strategy

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

Sustainability ambitions, Principles

Example: Swiss Re's enhanced Group Sustainability Strategy aims to reinforce the efforts **to make the world more resilient and sustainable**



Understanding sustainability risks

- The Why – Reasons to look closer at sustainability risks
- The What – Monitoring and managing sustainability risks.
- The How – Environmental, Social & Governance (ESG) framework.

The Why – Reasons to look closer at the sustainability of underwriting



Regulator's
call



Reputational
risk



Growth driver



Putting
strategy into
action



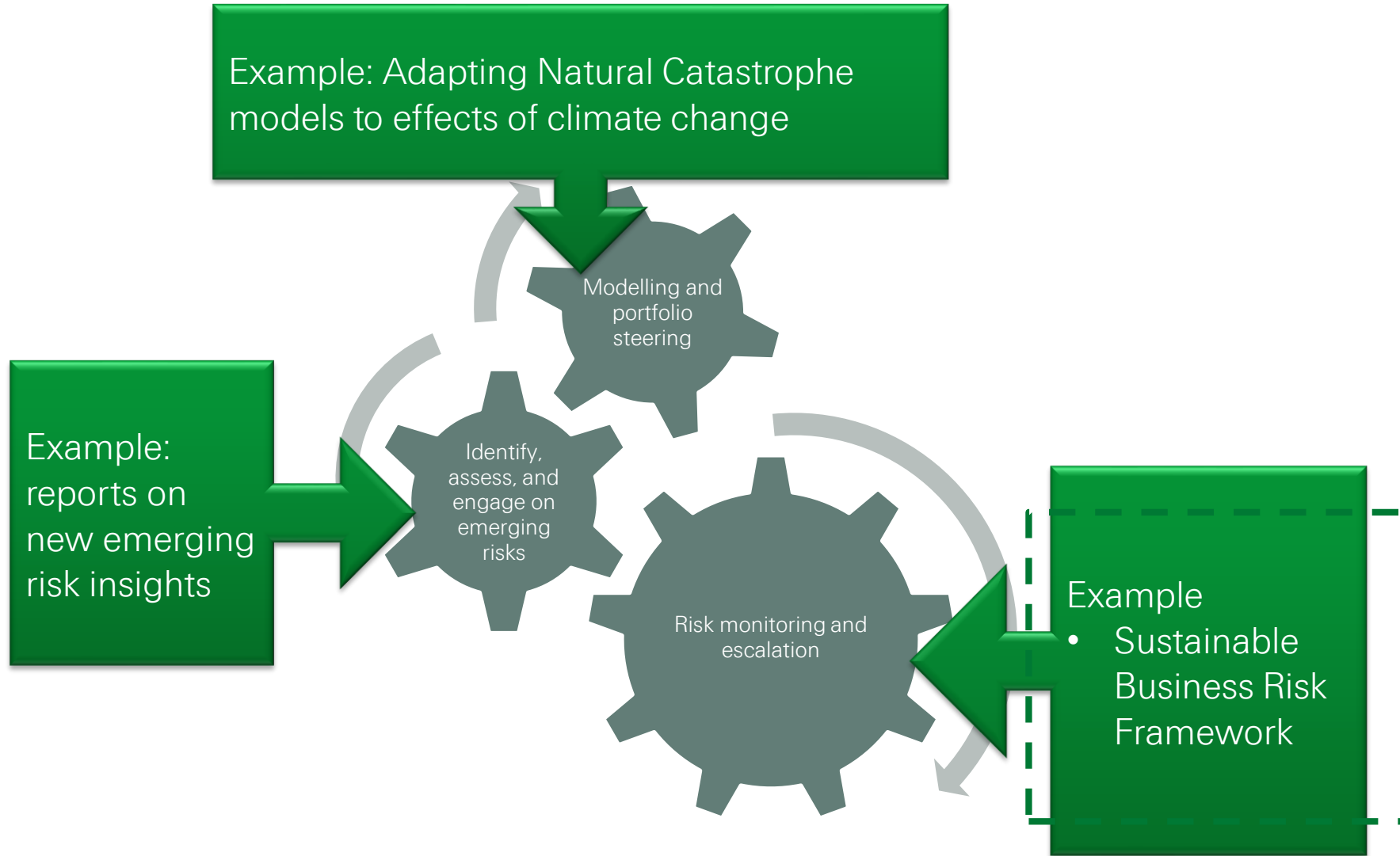
Improved risk
selection

Polling question 1

Which reason is the most important for your organisation to look at sustainability of underwriting (please choose one)?

- A. Regulatory requirement.
- B. Putting sustainability strategy into action.
- C. Reputational risk.
- D. Improved risk selection.
- E. Growth driver.

The What - Monitoring and managing sustainability risks



✓ More details on next slides

The How - Risk monitoring and escalation: Environmental, Social & Governance Framework (ESG Framework)

ESG Framework

- Identifying, mitigating and eliminating potential sustainability risks inherent to business transactions
- Applies to entire portfolio as well as investments and is fully embedded in the standard operating procedures

Sustainability umbrella guidelines



Human rights

No business with countries and companies that are complicit in severe human rights violations



Environmental protection

Not involved with companies that cause irreversible damage to the environment and in particular ecologically sensitive areas

Company and country/industry exclusions

- As long as permissible (eg by virtue of mandatory law or internal policies) and possible (eg if existing documentation provide for it).
- Annual review based on independent assessments and updated.

Sector specific guidelines (examples)



Animal testing



Mining



Dams



Nuclear weapons proliferation



Defence industry



Oil and gas



Forestry and logging



Thermal coal

ESG process

- Includes expert analysis to create scores and lists
- Tool used by underwriters for screening, and referral purposes

ESG: The referral process



Polling question 2

Are sustainability considerations primarily slowing down business or creating new business opportunities for your organization (please choose one)?

- A. Slowing down business.
- B. Creating new opportunities.

Sustainability as growth opportunity

- Insurance as an enabler.
- Examples of sustainability products.

Insurance is an enabler

ESG Risk process applied to underwriting

- ESG Risk Assessment
- UW referral Tool
- Policies applied to UW: human rights; environmental protection + sector-specific guidelines



Insurance underwriting to enable

- UW portfolio steering using the UN Sustainable Development Goals
- Products that address your sustainability challenges

The bottom line is:

**Sustainable business
is good business in the long-run**

Examples of products to address sustainability challenges

Protection
against lack of
solar irradiation

Cover for
offshore wind
farms

Cover for low
income group
and impaired
lives

Parametric
products to
protect farmers



Polling question 3

On which stage is your organisation in its sustainability journey in respect of underwriting (please choose one)?

1. Not started at all.
2. Have only taken a few steps so far.
3. Already made some good progress but still a lot to do.
4. Well advanced.
5. Sustainability is already embedded in underwriting.

Questions to ask in respect of your sustainability journey

Status quo

How are you currently assessing Sustainability in underwriting?

Challenges

What are some hot topics and pain points you are facing?

Focus areas

What are you planning to do in the near future on Sustainability in underwriting?

Support

What support can you get?

Publicly available guidelines and data sources

Guidelines for Human Rights (HR), Environment (E) & Governance (G):

- UNEP Principles for sustainable insurance: Global guidance on the integration of environmental, social and governance risks into insurance underwriting (HR, E, G).
- UN Global Compact (HR, E, G).
- International Bill of Human Rights (HR)
- ILO 8 Core Conventions (HR).
- UN Guiding Principles (HR),
- Equator Principles (E).

Data sources:

- **Data sources publicly available:**
- [Climate Action 100+](#): Assessment of largest greenhouse gas emitters
- [Spott](#): Assessment of companies in Forestry / Agriculture sector
- [Forest500](#): Assessment of companies in Forestry / Agriculture sector
- [Global Forest Watch](#): Database on protected areas
- [Protected Planet](#): Database on protected areas
- [NGO Urgewald](#): Global Coal Exit List

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

A blurred background image of a conference or meeting. Several people are visible, with their hands raised in the air, suggesting an interactive session or a Q&A period. The focus is on the hands and arms, with the faces of the participants out of focus.

Any questions?

Thank you! Questions?

Contact us



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