Munich Re´s approach to fossil fuels in underwriting and investments

Background

Munich Re adopts a forward-looking, prudent and responsible approach to business. For more than 145 years, we aim to create long-term value by assuming a diverse range of risks around the world. We are convinced that this business concept will continue to be successful in the future through sustainable action. Our environmental, social and governance 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 also endeavours to play a part in meeting the targets of the Paris Agreement. Our holistic approach with regard to the climate is based on the following three core elements: decarbonisation targets, provision of risk transfer solutions that contribute to climate change adaptation and to mitigating the impacts of climate change, and Group-wide risk management. These elements span our investments, (re)insurance activities and own operations.

In addition, we leverage our knowledge in the climate sphere through global initiatives and partnerships. Munich Re is a member of a range of initiatives in the financial industry and of associations, including the Principles for Sustainable Insurance (PSI), Principles for Responsible Investments (PRI) and the Net Zero Asset Owner Alliance (NZAOA).

Munich Re Climate Ambition 2025

With our Ambition 2025, we follow a science-based path and have set specific targets up until 2050 for our (re)insurance[1] and investment[2] business. We are striving to reduce GHG emissions from both our (re)insurance business and investment portfolio to net zero by 2050, with 2025 marking a crucial first milestone. Munich Re set this intention in the expectation that governments will meet their own pledges to achieve the goals of the Paris Agreement. With regard to decarbonisation targets, our Climate Ambition 2025 creates a holistic framework encompassing emissions associated with our investments, (re)insurance activities and own operations.

The Intergovernmental Panel on Climate Change Special Report on Global Warming of 1.5°C is considered as a central source for scenario as well as emission-reduction 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] With regard to the definition and scope of "net zero" in connection with (re)insurance business activities, we will consider the latest information from regulatory requirements when we define new targets.
[2] The Scope of application for own investments concerned is defined in the Responsible Investment Guideline.

Underwriting

We plan to phase out the insurance of thermal coal activities by 2040 across all non-life lines of business, including treaty business. This applies to all primary insurance and facultative and direct (re)insurance business. As a first milestone, we aim to reduce the corresponding carbon emissions of our insureds' activities by 35% by the year end 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 GHG emissions associated with the insured business of our clients: annual tonnes of thermal coal produced from mines and installed operational capacity in megawatts of our clients' thermal coal power plants. 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 the oil and gas production sector (conventional, unconventional), 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 primary insurance as well as in facultative and direct (re)insurance business, covering oil and gas production, relating to the operational property insurance business. Here, we have set a target to reduce our associated carbon emissions by 5% by the year-end 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 plus Gas, an integrated open-source tool. In the 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.

Investments

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 in line with the NZAOA's Target Setting Protocol correspond to the core elements of common transition plans, which include five-year plans, progress reporting and engagement targets. As an intermediate step, financed net greenhouse gas emissions in the foregoing asset classes shall first be reduced by 25–29% by 2025, towards a net zero climate target by 2050. This is complemented by specific targets for coal, oil and gas.

For our own investments, consistent with the (re)insurance side of our business, we have committed to a 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 (in particular mining and/or 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).

Our Restrictions Related to Fossil Fuels in Underwriting and Investments

Since September 2018, in our primary insurance and facultative and direct (re)insurance business, we no longer insure single-location stand-alone risks in the planning, financing, construction or operation of new thermal coal mines, coal-fired power plants and the related infrastructure where construction or preparatory work for coal production or operation has not started before 1 September 2018. Multi-location covers will be treated like-single location risks, if the majority of the locations or insured risks 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 with relative revenue thresholds between 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. Furthermore, Munich Re does not conduct new direct investments in thermal coal infrastructure.

In the oil and gas sector, we have put exclusions in place for the insurance of oil sand extraction and the related infrastructure. In primary insurance and facultative and direct (re)insurance business, it has been prohibited since 2019 to cover new or existing oil sand sites, as well as new or existing oil sand-related infrastructure. The guidelines referred to above apply to single locations and stand-alone risks. The exclusion also applies to mixed policies with exposure above a set threshold of 20% of the sum insured or revenue.

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.

In December 2021, we reinforced our guidelines on Arctic oil and gas drilling, including directly related infrastructure, for all Group entities that underwrite business of this kind. We no longer accept any corresponding single-risk stand-alone covers. This also applies to mixed covers and the treaty reinsurance business, where the exposure is above a defined single-digit percentage threshold. The new guidelines apply to renewals of existing reinsurance treaty business with commencement dates of 2023 or later. The definition of the Arctic in this regard is based on the internationally recognised definition by the Arctic Monitoring and Assessment Programme (AMAP), with a few exceptions in the Norwegian region below the Arctic circle, since 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.[3]

Since 1 April 2023 Munich Re no longer invests in or insures 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.

[3] For the detailed definition of the Arctic Region for investments please refer to the Responsible Investment Guideline.

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.

Munich Re no longer conducts new direct investments in pure-play oil and gas companies since 1 April 2023. We define pure-play oil and gas companies as listed companies within the GICS oil and gas Subindustries except Integrated oil and gas according to ISS ESG GICS classification. For new direct investments, Munich Re requires integrated oil and gas companies to make a credible commitment to net zero greenhouse gas emissions by 2050, including corresponding short- and mid-term milestones.

Munich Re may choose to selectively invest in green bonds issued by oil and gas companies which are compliant with an accredited Green Bond Framework (such as the International Capital Market Association (ICMA) Green Bond Principles or the EU Green Bond Standard).

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