



SHAPING THE FOUNDATIONS FOR SUSTAINABLE & RESILIENT INSURANCE AND PENSION FUNDS

Climate change risk and ESG for insurance

September 2023

A business of Marsh McLennan

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**LIMITING WARMING TO 1.5°C IMPLIES REACHING NET ZERO CO2 EMISSIONS
GLOBALLY BY AROUND 2050**

1.5°C



CLIMATE CHANGE IS DRIVING MATERIAL PHYSICAL EFFECTS AND TRANSITION EFFORTS



Indonesian forest fires cost USD 5.2 Bn in economic losses



Malaysian Government to allocate USD 3.2 Bn for Flood Mitigation until 2030



Singapore vows to “ditch petrol cars”
2022: 8000 EVs, 1.2% of vehicles
1H 2023: 1500 New EVs, 15% of new vehicles



Vietnam faces an early retirement of 28 GW coal-fired power plants before 2040



Indonesia to export 2GW renewable energy to Singapore annually in 5 years; 15% of Singapore’s energy needs

IN LINE WITH GLOBAL PEERS, INDONESIA TOO HAS ESTABLISHED ITS OWN CLIMATE COMMITMENTS AND STRATEGIES



CURRENT STATE

- **2.47 GtCO₂e** (2019, top 10 largest emissions)
- Ranked in **top 3 countries** globally in terms of climate risk exposure¹



TARGET STATE

- Projected BAU emissions (2030): **2.87 GtCO₂e**
- **Achieve Net Zero by 2060 or sooner**
- Interim emissions reduction target – 2030²
 - Unconditional: **~32%** , 1.95GtCO₂e
 - Conditional³: **~43%** , 1.63GtCO₂e

1. Based on World Bank, due to high exposure to extreme weather changes and consequences of El-Nino and El-Nina; 2. Compared to a business as usual (BAU) scenario; 3 Contingent on sufficient global financial support

AND HAS ALREADY INITIATED COAL-PHASE OUT AND SECURED FUNDING FROM GLOBAL PARTNERSHIPS

Government initiatives to reduce carbon emissions



Folu Net Sink 2030: eliminate deforestation



Carbon trading¹ platform



Advancement on CCS/CCUs²



Retire 4.8GW coal fired power plants by 2030



Incentives for rooftop solar and EV³



27 Provinces have energy transition plans



With ADB, design new capital city to be (NZ, 2045)

Funding and investment on climate change



USD 35+ BN of Government spend from 2016-2021



USD 50M+ from Norway – as part of FOLU Net Sink 2030



USD 20 BN pledged by JETP⁴ at G20 (2022)



USD 100M+ grants from GEF's Climate Finance Funds

1. Planned for EOY 2023; 2. Carbon capture utilisation and storage; 3. Electric Vehicles; 4. Just Energy Transition Partnership (JETP)

REGULATORS, INCLUDING **OJK**, MANDATE INSURERS AND FIS TO ADOPT STRONG CLIMATE RISK MANAGEMENT FRAMEWORKS IN RESPONSE TO CLIMATE RISKS



- Sustainable finance roadmap (e.g. 51/POJK.03/2017)
- Sustainable finance taskforce to establish sustainable financial ecosystem
- Published Indonesia's green taxonomy
- Climate risk stress testing (CRST) Guide for Banks
- Consultation Paper on Principles for Effective Climate-Related Financial Risk Management



ACCORDINGLY, INSURERS AND PENSION FUNDS ARE FOCUSING ON MANAGING THEIR IMPACT ON CLIMATE AND CLIMATE'S IMPACT ON THEIR BALANCE SHEETS

HOW DO WE CONTRIBUTE TO CLIMATE CHANGE?

Shift the portfolio to reduce Scope 3 emissions (clients' emissions)

Investors and shareholders are the primary stakeholders on this front

HOW DOES CLIMATE CHANGE IMPACT US?

Reduce financial risk exposure to climate change

Regulators are the primary stakeholders on this front

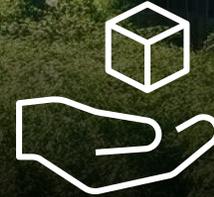
ACCELERATION BY GLOBAL INSURERS AND PENSION FUNDS IS PARTICULARLY OBSERVED IN FOUR KEY AREAS



**NET-ZERO
TARGET-SETTING/
COMMITMENTS**



**SUSTAINABILITY
IN INVESTMENTS**



**PRODUCT
INNOVATION**



DISCLOSURES

WE SEE VARYING DEGREES OF MATURITY AND AMBITION ACROSS PLAYERS WHEN EMBEDDING CLIMATE RISK AND SETTING NET-ZERO TARGETS

1

PRE-EMPT FUTURE REGULATIONS

2

ACTIVE MONITORING PORTFOLIO

3

MINIMIZE FINANCIAL LOSSES

4

CHAMPION ENVIRONMENTAL RISK ISSUES

WIDE SPECTRUM OF AMBITIONS CAN BE SEEN IN THE INDUSTRY TODAY

| | | | |
|-----------------------------|--|---|---|
| Ambition level | 1. Compliance Regulatory Minimum | 2. Opportunist Integrating ESG in business activities | 3. ESG champions ESG central to the organization; progress on NZ target |
| Examples of insurers | Mostly all sizeable insurers | Some Asian players | Multiple EU and some large US players |

A stack of newspapers is shown on the left side of the image. The top page is clearly visible, with the word "BUSINESS" printed in large, bold, black letters. Above it, the word "WORLD" is partially visible. The newspapers are slightly out of focus, creating a sense of depth. The background is a dark, solid color.

HOW CAN INSURERS ACHIEVE NET-ZERO?

- **Aligned to Net Zero – based on independent scientific view of what that means**
- **Alignment to include: 1. Own Operations 2. Investments and 3. Underwriting**
- **Cover all key transition sectors over time (need not be 100% immediately)**
- **Honest, achievable, and sufficiently bold**
- **Granular with interim targets – 2030 is more important than 2050**
- **Supported by defined and aligned engagement strategies – Not a stab in the dark**

INSURERS EMBEDDED ESG FACTORS INTO INVESTMENT DECISIONS AND UTILIZE INFLUENCE AS INVESTORS TO STEER THE PORTFOLIO TOWARDS “GREEN”

A

ASSESS INHERENT ESG RISK

Typically 10–20% exposure to sectors with inherent ESG risk

Illustrative

O&G

Steel

Coal

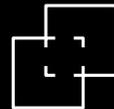
Transport

Chemicals

Real Estate

B

PORTFOLIO STEERING AND MONITORING



Exclusions/divest



Transaction – ESG risk assessment



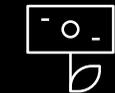
Measuring and monitoring portfolio emissions

C

INFLUENCE AND CHAMPION TRANSITION



Engage/Influence Investees to transition



Innovate – launch and tilt budget to “green” funds

CLIMATE TRANSITION PROVIDES INSURERS WITH NEW BUSINESS OPPORTUNITIES

Globally insurers have already made efforts to support and commercialise the transition

Indonesian insurers also offer "green" insurance

CLIMATE RISK ADVISORY



ENVIRONMENTAL LIABILITY



AGRI INSURANCE



EV INSURANCE



RENEWABLE ENERGY RELATED INSURANCE



GREEN BUILDING ENERGY INSURANCE



ENERGY ASSET INSURANCE (INCL RENEWABLE)



EARTHQUAKE INSURANCE

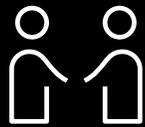


WHAT INSURERS CAN DO TO FURTHER COMMERCIALISE THE OPPORTUNITY

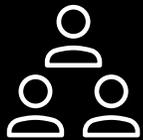
A FRONT-END



MARKETING

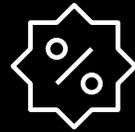


PARTNERSHIPS



DISTRIBUTION

B BACK-END



**U/W AND
TECHNICAL**

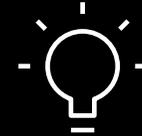


**CLAIMS
SPECIALISATION**



PRICING

C VALUE-ADDED SERVICES



**CLIMATE RISK
ADVISORY**



**RISK &
ANALYTICS TOOLS**

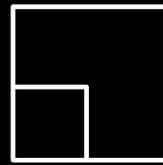
WHAT GOOD LOOKS LIKE ON JOURNEY TOWARDS CLIMATE RISK MANAGEMENT AND DISCLOSURE



**SUSTAINABILITY
REPORTING**



**NET ZERO
ALIGNMENT**



**RISK MANAGEMENT
AND MEASUREMENT**



**COMMERCIAL
OPPORTUNITIES**



**STAKEHOLDER
MANAGEMENT**



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