



# Suncorp Climate-Related Financial Disclosures (TCFD) 2019-20

Building futures and protecting what matters

**SUNCORP** 

Suncorp Group Limited  
ABN 66 145 290 124



This report outlines our approach to managing climate-related risks and opportunities, including our progress and performance against our Climate Change Action Plan.

This disclosure should be read in conjunction with Suncorp's 2019–20 Annual Report, 2019–20 Responsible Business Report and 2018–20 Climate Change Action Plan.

Suncorp's assessment of climate-related risks and opportunities has been undertaken on a best endeavours basis, acknowledging the uncertainty of any outcomes considered and the limitations to understanding the full extent of the impact climate change may have. Results from the scenario analysis are not intended to reflect Suncorp's views of future outcomes, but to assess potential consequences from physical and transition risks and help Suncorp better understand its strategic resilience to climate change.

## About Suncorp

Since 1902, Suncorp Group Limited has been building futures and protecting what matters. We offer insurance, banking and wealth products and services through some of Australia and New Zealand's most recognised financial brands including Suncorp, AAMI, GIO, Apia, Shannons and Vero, as well as those from our partners.

With \$96 billion in assets, we are committed to building a sustainable and responsible financial services Group that will help our customers, 13,500 people<sup>1</sup>, shareholders and communities to prosper.

To read Suncorp's most recent Annual Report, please visit [suncorpgroup.com.au/investors](https://suncorpgroup.com.au/investors)

To learn more about our approach to Corporate Responsibility, please visit [suncorpgroup.com.au/corporate-responsibility](https://suncorpgroup.com.au/corporate-responsibility).



1. Number current as at 30 June 2020

# Suncorp and climate change

Climate change is a shared global challenge that needs to be addressed by all levels of government, businesses, and individuals. Suncorp is committed to playing our part in reducing emissions and preparing for the physical and economic impacts of climate change on our business, community, and across our value chain.

Suncorp accepts the international scientific consensus presented by the Intergovernmental Panel on Climate Change. We support the aim of the United Nations Climate Change Paris Agreement to keep global temperature rise this century well below 2°C, to minimise the risks that come with changing weather patterns.

We support the recommendations of the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) and in 2018 we publicly committed to enhancing our disclosures in line with its recommendations.

Climate change presents strategic and financial risks to our business and communities over the medium and long term, as well as providing significant opportunities for our future.

While we are working on understanding these longer term impacts through scenario analysis, we know we have a part to play today in helping to limit global warming and building resilience. This includes reducing our own emissions, making decisions that support an orderly transition to a net-zero emissions economy, and supporting growth through new and emerging opportunities that have a positive environmental impact for our business and communities.

### Our Climate Change Action Plan

Suncorp's central framework to manage its response to climate change is the Board-approved Climate Change Action Plan (CCAP), which was first published in April 2018, and

guides the maturing of Suncorp's assessment, management and disclosure of climate change risks and opportunities.

Suncorp's CCAP is available at [suncorpgroup.com.au/corporate-responsibility](https://suncorpgroup.com.au/corporate-responsibility)

#### 1. Strengthen our governance processes

We will integrate climate change risks and opportunities into our risk management, strategy, and business planning.

#### 2. Reduce our environmental footprint

We will support the transition to a net-zero emissions economy by 2050 by setting targets, metrics, and policies which reduce the impacts of our business activities on the environment.

#### 3. Increase community resilience

We will help our communities reduce climate change risk, adapt and build resilience through our products, advocacy and collaboration with key industry, government and climate stakeholders.

#### 4. Accelerate emerging opportunities and climate-related innovation

We will help our customers, communities, and businesses reduce emissions intensity and transition to a low-carbon future by exploring new products, services, and other emerging financial opportunities.



People



Digital & Data



Customer



Advocacy



Customer



Advocacy

#### 5. Track and openly disclose our climate-related performance

We will track, disclose, and improve our performance against the TCFD, targets, and other metrics.

# Climate Change Action Plan Progress

			2017/18	2018/19	2019/20
Governance Processes	Governance and planning	Implement Climate Change Action Plan with Board oversight and ongoing reporting	✓	✓	✓
	Capability building	Work with scientific experts and external partners to improve Suncorp's ability to assess and manage climate change risks and opportunities	✓	✓	✓
		Build Suncorp's technical capability to model climate change impacts, including financial impacts		→	→
	Scenario analysis and risk management	Conduct high-level risk and opportunity assessment and identification of priority areas and gaps		✓	
Conduct scenario analysis and identify risks and opportunities.				✓	
Environmental Footprint	Environmental performance	Implement Environmental Performance Plan		✓	✓
		Set, publish and meet scope 1 and scope 2 greenhouse gas (GHG) emissions targets		✓	✓
		Explore opportunities to reduce scope 3 emissions			→
	Responsible business policies and practices	Build internal awareness, understanding and engagement in Suncorp's response to climate change	✓	✓	✓
		Implement Responsible Investment Policy	✓	✓	✓
		Develop and implement Responsible Banking & Insurance Policy and develop Fossil Fuel Sensitive Sector Guideline		✓	✓
	Integrate environmental considerations into supply chain policies		✓	✓	
Increase Community Resilience	Stakeholder engagement	Collaborate and advocate for climate adaptation, resilience building and risk reduction	✓	✓	✓
		Continue to develop Protecting the North program and Cyclone Resilience Benefit	✓	✓	✓
	Resilience solutions and further advocacy	Develop and implement Natural Hazard Resilience Program			✓
		Explore additional resilience product solutions			→
Accelerate Emerging Opportunities	Low carbon growth opportunities and innovation	Explore and develop low-carbon products and services; test and learn			→
		Develop partnerships to support low carbon enterprise and entrepreneurship	✓	✓	✓
		Reduce carbon intensity of Suncorp's investment portfolio including allocation to low carbon investments		✓	✓
		Participate in the development of environmental impact investing		→	→
Performance Disclosure	Publish, track and disclose	Track and disclose scope 1, scope 2 and scope 3 GHG emissions	✓	✓	✓
		Disclose other environmental performance	✓	✓	✓
		Report against TCFD framework (increasing disclosure as appropriate)		✓	✓

KEY ✓ Complete → Underway

# Governance

## Board oversight of climate-related risks and opportunities

Governance of climate change at Suncorp is the responsibility of the Suncorp Group Limited and Suncorp New Zealand Boards, which oversee the response to climate change risks and opportunities through their Board Risk Committees. Key strategic and financial risks, including climate change, are identified during the annual business planning process and mitigation activity is considered at least on a quarterly basis through reporting to Board Committees.

## Management of climate-related risks and opportunities

The Group Chief Executive Officer (**Group CEO**) and Executive Leadership Team are accountable for Suncorp's actions and commitments to embed climate change into risk management, business strategy, business planning and budgeting processes and frameworks, as outlined in the CCAP. Emerging risks, including those related to climate change are monitored regularly by management committees, with material changes escalated to the Board as required.

Our CCAP has five working groups comprised of cross-functional expertise from banking, insurance, investment, our Group support functions and New Zealand to ensure climate change considerations are integrated into relevant activities. These working groups report into the Climate Change Leadership Group that reports to the Corporate Responsibility Council, which is a subcommittee of the Executive Leadership Team and is chaired by Suncorp's Group CEO.

Suncorp's Responsible Investment Committee governs the application of the Responsible Investment Policy, which includes the application of a shadow carbon price to the analysis of investment opportunities to manage risk as we transition to a net-zero emissions economy. Our Insurance, Banking & Wealth and New Zealand Risk Committees govern the implementation of Suncorp's Responsible Banking & Insurance Policy in Australia and New Zealand, which establishes an organisation-wide approach for managing environmental and social outcomes from our products and portfolios. Suncorp also ensures strong governance of procurement activities and is committed to actively managing the environmental and social risks and opportunities in our supply chain through our Procurement Policy and Supplier Code of Practice across our business.

## Climate change and remuneration

Suncorp's executive remuneration structure consists of fixed remuneration as well as short term incentives (STI) and long term incentives (LTI). In determining STI, the Board ensures risk management is considered through, among other things, separately weighted risk measures in the Group Scorecard. The Group Scorecard is categorised into Financials, Customer, Risk and People, with risk management considered



as a key component of the overall performance outcome. Climate change is one of Suncorp's six strategic risks. Furthermore, management of acute extreme weather risk and appropriate reinsurance is a material contributor to the Group delivering targeted profit after tax.

More detail regarding executive remuneration can be found in the Remuneration Report of our Annual Report at [suncorpgroup.com.au/investors](http://suncorpgroup.com.au/investors)

# Suncorp is a resilient business

Suncorp takes a holistic view of climate change impacts – physical, transition, second order and compounding effects – recognising there are significant long-term financial and strategic risks that we address through our CCAP and risk management. Climate change does not increase the number of risks managed by Suncorp, but can increase the impact of risks that are already managed through the Enterprise Risk Management Framework.

The scenario analysis we have undertaken this year shows that Suncorp’s strategy and business model are resilient to climate change in the short term, and that short-term financial impacts of climate change are minimal. If a simple approach to climate change impact assessment is taken, considering one aspect of physical impacts – the variation in expected frequency or severity of natural hazards – then at face value the impact of climate change over the next 10 years could be within normal model variance.

- Short term ..... covered by our three-year business plan
- Medium term ..... 10 years to the end of the decade
- Long term ..... 20 to 40 years to the middle of the century

Over the short term, our Insurance business has flexibility through an annual pricing cycle and reinsurance, which have provided protection for material earnings volatility and capital protection during recent bushfire, hail, and flood events. While reinsurance costs are increasing, reinsurance capacity remains available and will continue to provide protection.



Our pricing models are being updated to incorporate climate models to manage the increasing uncertainty and variability of weather-related natural hazards, as well as account for natural hazards experience. Growing reinsurance costs also impact on pricing. Underwriting processes are also reviewed to improve risk selection.

Operationally, Suncorp has been able to support customers during seasons of intense and concurrent natural hazards such as the Australian summer of 2019–20. We have reduced the cost and time taken to process claims, increased customer loyalty and improved trust with stakeholders. We continue to advocate for our customers in relation to natural hazard resilience.

Over the medium to longer term, our analysis shows Suncorp’s customers and residential portfolios face an increase in exposure to physical risks. There are potential insurance pricing impacts to customers that may reduce insurance affordability and market size over the medium term. To alleviate this pressure, Suncorp continues to advocate for a more resilient built environment, improved customer understanding of risks through engagement and risk-based pricing, and sharing risk intelligence with external stakeholders to improve resilience infrastructure, land use planning, and building codes.

For the Bank, it is important that suitable insurance is available for customers so that banks will lend to them, and investment managers continue to provide capital to the Bank. Uninsurable physical risks such as coastal erosion and expanding soils will become more prevalent for a small proportion of Suncorp’s residential lending customers.

The transition risk scenario analysis conducted this year shows Suncorp has low levels of exposure to industries expected to experience large declines in activity due to a transition to a net-zero emissions economy. The Bank’s agribusiness lending portfolio has exposure to industries that may face a moderate decline in activity in the transition to both a 1.5°C and a 2°C economy over the next 10 years however, customers operating in these industries often have diversified revenue streams.

Suncorp has low exposure to industries expected to experience growth in activity in transition scenarios, that may provide opportunities for strategic business growth. Opportunities may exist for Suncorp to support the financial and environmental sustainability of industries that are likely to be challenged by a transition toward a net-zero emissions economy.

Limiting global warming to 1.5°C provides more certainty of reducing the physical risks of climate change, which creates an imperative to continue to support a transition to a decarbonised economy.

The outcomes from the scenario analysis reinforce Suncorp’s position that climate change poses both a strategic and a financial risk to the business over the medium to long term. While there are significant risks to manage, there are also opportunities for Suncorp in risk management and the diversification of revenue through supporting the transition to a net-zero emissions economy.

## Australian Summer 2019–20: responding to customers during natural hazards

Suncorp’s proven capacity to meet customer needs and efficiently fulfil claims during concurrent natural hazard events underpins our strategic resilience and financial sustainability into the future.

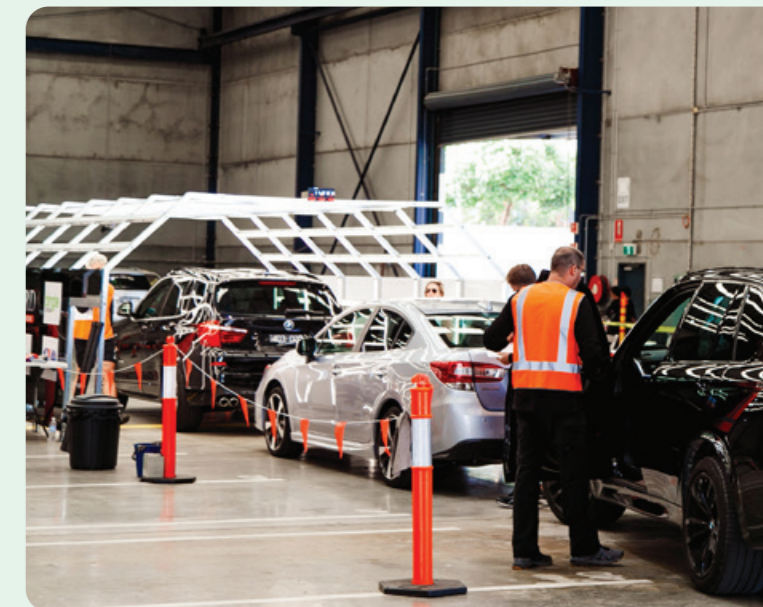
During the summer of 2019-20 Suncorp successfully managed more than 70,000 insurance claims following several large natural hazard events including the catastrophic bushfires which caused significant destruction across the country, severe hailstorms in Melbourne and Canberra, and an east coast weather system resulting in flooding.

Suncorp’s national resources, including customer support teams, assessors and claims specialists, were deployed to affected communities as soon as it was safe to do so. These teams spent many weeks living in bushfire-affected areas speaking with and helping our customers face-to-face. In Melbourne and Canberra, Suncorp established several dedicated assessment centres to quickly assess and triage all hail-affected vehicles, so we could make the repair process as seamless and efficient as possible for customers.

For large home claims following bushfires, hail and flooding, we continue to have dedicated client managers who act as a single point of contact for our customers throughout their claim.

We continue to have a strong network of tradespeople on the ground across Australia, including in bushfire impacted communities, and they have adapted well to new ways of working in a COVID-19 environment, including contactless claim repairs.

For bushfire impacted communities, we know the faster we can inject funds into the local communities the stronger the recovery will be from the fires and the ongoing COVID-19 pandemic. Suncorp’s experience shows that quickly paying claims, engaging local builders, and using local trades and suppliers not only rebuilds people’s homes and businesses, but injects crucial economic vitality into damaged communities.



TOP AND BOTTOM: Suncorp assessors at Club Malua in Malua Bay, New South Wales, following the bushfires in December 2019  
MIDDLE: Suncorp’s Hail Assessment Centre in Melbourne

# Our approach to assessing climate-related risks and opportunities

This year Suncorp has further investigated the emergence of climate-related risks and opportunities through scenario analysis of different emission concentration pathways and at fixed points in time. We have used our first climate change high-level risk and opportunity assessment (HLROA) that was completed in April 2019, as a starting point for our scenario analysis.

High Level Risk Categories	High Level Opportunities
<b>1. Physical exposures in a future climate</b>	1. Improving Suncorp's environmental sustainability (e.g. Power Purchasing Agreements)
<b>2. Community resilience to insurable and uninsurable risk</b>	<b>2. Community resilience building (e.g. community-level risk reduction)</b>
3. Organisational technical capability	3. Product or service offerings for customers and our people to reduce their carbon intensity (e.g. carbon offsetting, energy efficiency measures)
4. Organisational business disruption	<b>4. Developing competitive advantage by understanding climate change impacts and emerging opportunities (e.g. investing in resources, systems and tools to increase understanding and how Suncorp can benefit from managing the increasing impacts better than competitors)</b>
<b>5. Portfolio management and changing markets</b>	
6. Emerging transition and legal risk	
7. Changing existing risks and regulation	

Table 1: Summary findings from 2019 High-Level Risk and Opportunity Assessment; bold categories are the focus areas of the 2020 risk and opportunity assessment

Our scenario analysis has focused on:

- how the **physical risks** of climate change may impact business operations, pricing and income over the medium (next 10 years) to long term (mid-century) on our **residential property insurance and lending portfolios in Australia and infrastructure and property investments in Australia**; and
- how an **economic transition to a net-zero emissions economy** of financial markets, consumer markets and the economy may impact **our commercial and liability insurance portfolios** as well as **investment assets for Insurance Australia**, and the **business lending portfolios for the Bank**, in the short (next three years) to medium term (next 10 years).

Our scenario analysis did not include New Zealand.

Our work recognises the impacts of climate change on the business and provides rigorous analysis to: inform our Group and business unit strategic planning, as well as financial decisions such as reinsurance and pricing; meet market expectations about disclosure; and, be transparent with investors, regulators and other stakeholders about our efforts to limit the impacts of climate change.

## Partnership approach

In conducting our scenario analysis this year, we have adopted a partnership approach to supplement our technical knowledge, internal modelling and data with additional research, modelling sophistication, and technical scientific and economic knowledge.

To support the physical risk assessment, we partnered with Aon Australia based on their existing knowledge of Suncorp's insurance business, and their natural hazards modelling capability.

To support the transition risk assessment, ClimateWorks Australia was selected as a partner owing to their experience in modelling technical and economic pathways to reach net-zero emissions by 2050.

# Physical risk

## Physical risk scenarios

For Insurance Australia and Suncorp Bank, the physical risk analysis focused on Australian residential properties in our portfolios at a postcode level. For the investment portfolio we considered the impact to infrastructure and property assets at a postcode level. A review of property and infrastructure managers' climate change mitigation plans was also undertaken.

The physical risk analysis quantified the potential implications for subsequent property damage of each separate weather hazard, expressed both in change to the present-day Average Annual Loss (AAL) and change to the hazard rate (a percentage multiplier value applied to the total insured value that generates the AAL). Suncorp has selected AAL as a risk measure in order to understand any pricing impacts.

Suncorp has adopted the United Nations' Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathways (RCP) scenarios used in global climate modelling. The scenarios we used for the assessment are RCP 4.5, reflecting a moderate emissions pathway with emissions peaking mid-century and an increase in average global temperature of approximately 2°C, and RCP 8.5 where emissions continue to increase rapidly through the early and mid-parts of the century with an increase in average global temperature in excess of 4°C.

Owing to the increasing nature of physical risks over time, Suncorp selected the time periods 2030 and 2060 for the physical risk assessments. 2060 was selected as it aligns with previous internal research, enabling more relevant comparisons for strategic and pricing purposes. It also provides greater divergence for comparison between the concentration pathways, allowing for a better understanding of the consequences of inaction.

## Physical risks identified and their impacts

Over the medium to long term, weather-related natural hazards continue to be material risks for Suncorp. These hazards can be both insured risks and non-insured risks and include bushfires, cyclones, storms (low pressure systems and east coast lows), severe thunderstorms (hail), flooding (river and surface water), storm surge (coastal flooding) and expansive soils.

## Insurance Australia

Based on the research conducted, key changes to material natural hazard risks are:

- Cyclones may have a stronger intensity when they do form and could potentially affect a greater coastal region to the south.
- Storms are expected to deliver more intense extreme rainfall when they do occur, with subsequent flash flooding likely to become more common as a result. An increase in surface water (overland) flooding is expected to put additional strain on urban drainage systems.
- Severe thunderstorm environments are expected to become more common in currently temperate climates.
- Sea level rise is expected to increase the storm surge risk to coastal, low-lying properties and sandy coastlines may recede by up to 50 metres in certain areas.
- Bushfire risk is expected to increase overall with more severe and frequent fire weather conditions, altered fuel availability and a lengthening of the fire season.
- More hot and dry days projected each year in some regions are expected to increase the risk of land subsidence on certain soil types for approximately three per cent of Australia's existing building stock.

These changes to natural hazard risks in the future carry low to medium confidence owing to uncertainty in projecting weather-related natural hazards 10 years or more into the future with existing climate models.

Our physical risk scenario analysis shows that while there are different impacts for the individual hazards in different geographic regions by RCP scenario, based on today's population and built environment, residential portfolio Average Annual Loss (AAL) is expected to increase overall.

Storm hazards currently represent the largest component of weather-related natural hazard pricing risk, and this is anticipated to remain the case in the future. There is a disproportionate spread of financial risk associated with weather-related natural hazards that is greatest in cyclone, storm and flood affected regions. Our analysis also shows that lower socioeconomic communities are over-represented in locations at high-risk from natural hazards.



**Over the medium term** (the next 10 years) the increase in the combined, all-hazards AAL to the existing built environment due to the influence of climate change under both RCP scenarios is expected to be less than 10 per cent, which may be within the variability of existing natural hazard assumptions. Over the short to medium term Suncorp will continue to manage this risk through pricing, natural hazard allowance and reinsurance. Suncorp will continue to consider climate change as part of its residential property portfolio management and underwriting strategies (by region) in order to manage natural hazard exposure.

**In the long term** (mid-century) the increases in AAL and levels of variability are well beyond existing natural hazard assumptions under the RCP 4.5 scenario and are even more pronounced under the RCP 8.5 scenario.

**When factoring in future changes to the built environment** (such as population growth and increased density) without any improvements made to the resilience of the built environment, the expected increases in AAL and variability in the medium term are well beyond existing natural hazard assumptions and over the long term show unprecedented extremes, which are exacerbated in the RCP 8.5 scenario.

Factoring in expected resilience improvements to the built environment (such as improvements to building codes, construction practices and materials for new developments) would be likely to significantly moderate the anticipated impact of climate change, but still shows unprecedented increases in AAL and variability for both RCP 4.5 and RCP 8.5 scenarios in both the medium and long term, which are exacerbated in the RCP 8.5 scenario.

Our analysis confirms that improving the resilience of buildings would likely have a material impact on reducing AAL. Advocacy with all levels of government and industries for a more resilient built environment, as well as products and pricing that reward resilience action will continue to be key strategic priorities.

At a community level, we found lower socioeconomic communities are over-represented in locations at high-risk from natural hazards. While Suncorp's exposure to these locations is low, these communities will face rising insurance costs and insurance affordability pressure. Without product, stakeholder or government intervention to build resilience, this could lead to under-insurance and an increasing protection gap in the community.

While resilience improvements can moderate the impacts of climate change, resilience will be insufficient to completely

negate these impacts. A more resilient built environment and lower global warming pathway are key drivers to achieve reduced claims costs, affordable premiums, acceptable earnings volatility and reinsurance costs, and to reduce the risk of regulatory intervention.

### Bank

The Bank has residential mortgage portfolio exposures to two climate change physical risks that are not covered by insurance in all circumstances. These risks are expansive soils (shrink-swell movement of clay soils) and storm surge (coastal erosion).

The risk to the Bank from expansive soils relates to the potential for foundation movement and ensuing structural damage to property held as collateral. Our analysis has found that by 2060 in the RCP 8.5 scenario less than 1 per cent of properties in Australia may be subject to a moderate or higher risk of damage from expansive soils. Further analysis is required to provide more certainty regarding the level of the Bank's exposure to risks from expansive soil.

The risk from coastal erosion relates to properties situated at or near coastal regions that are built on sandy soils. Movements of the sea can erode the land under which the property is situated. The risk is exacerbated with every large tide or significant storm swell. Our analysis has found that by 2060 under the RCP 8.5 scenario there may be a 0.5 metre rise in sea levels, with 5 metres storm tides above the mean sea level. This may cause recession of up to 25–50 metres of sandy parts of Australia's coastline, with properties Australia-wide at risk of severe coastal erosion. More certainty regarding the level of the Bank's exposure to risk from coastal erosion requires further analysis.

There are limitations in identifying the impacts of physical risks on the Bank's residential lending because of the challenges associated with modelling downscaled data by geography and industry. Climate extremes are more difficult to model, and resolutions are not sufficiently granular to provide very high confidence for regional or local projections.

For the banking industry it is important that suitable insurance is available for customers so that banks will lend, and investment managers continue to provide capital. Uninsurable physical risks such as coastal erosion and expanding soils will become more prevalent for a small proportion of banking customers. Where risk mitigation or repair work is not undertaken, the value of customers' properties and collateral may be at risk.

# Transition risk

### Transition risk scenarios

Over the short to medium term, Suncorp has identified climate change transition risks and opportunities by using modelled changes in economic activity against a business as usual scenario (reflecting no policy changes from today) for 70 industries in Australia. We have conducted an analysis of the impact of transitioning to a net-zero emissions economy under 1.5°C and 2°C scenarios from the Decarbonisation Futures scenario data<sup>1</sup> for our Insurance Australia commercial and liability insurance portfolios, Insurance Australia investment assets and Bank business lending portfolios. Consumer insurance and compulsory third-party portfolios for Insurance Australia, and residential lending portfolios have not been included in the analysis.

The timeframe applied to consider these changes was 2030 to 2040 to reflect the timeframe in which a transition must occur to limit warming to 1.5–2°C. Data was provided and analysis conducted prior to COVID-19.

### Transition risks identified and their impacts

#### Insurance Australia

The Insurance Australia commercial insurance portfolios analysed are well diversified and broadly unaffected by a transition to a net-zero economy. The composition of Suncorp's exposure reflects Suncorp's risk appetite and risk selection processes.

Relative to a business as usual scenario, less than 4 per cent of Suncorp's current commercial insurance portfolio is exposed to industries that would be expected to benefit from an increase in economic activity under a 1.5°C scenario by 2030. Most of the portfolio is exposed to industries that would be neutral under this scenario (where the expected change in activity is between -5 to 0 per cent). Approximately 3.5 per cent of the current portfolio is exposed to industries that are expected to experience a moderate decline in activity (-5 per cent to -15 per cent), while under 4 per cent is exposed to

industries expected to experience a large decline (-15 per cent to -100 per cent) in activity relative to business as usual.

Currently, just over 4 per cent of Insurance Australia's investment assets are held in industries that are expected to experience a moderate decline in activity by 2030 under a 1.5°C scenario, while 2.4 per cent are held in industries that are expected to experience a large decline in activity relative to business as usual.

#### Bank

For the Bank, a small amount of the current commercial lending portfolio is exposed to industries where economic activity is expected to increase relative to business as usual. Most of the commercial lending portfolio is exposed to industries where the impact of transition is neutral under a 1.5°C scenario by 2030. Approximately 17 per cent of the current commercial lending portfolio would be exposed to a moderate decline in economic activity, while 0.3 per cent would be exposed to a large decline in economic activity relative to business as usual.

The Bank's agribusiness lending portfolio has exposure to sheep and cattle businesses which are expected to experience a moderate decline in economic activity in the transition to both a 1.5°C and a 2°C economy relative to business as usual over the next 10 years. The resilience of businesses to diversify revenue streams has not been considered as part of this analysis, and further work in this area is needed.

This transition risk analysis focuses on first order impacts, that is, the effect of transition on business lending customers. We have not covered the effect on the employees of businesses that will also be adversely affected, and the flow on impact on to the residential mortgage portfolio.

Suncorp's credit guidelines are conservative and require a high level of certainty in acceptance of risk. The low exposure to more sustainable sub-industries across this portfolio represents an opportunity for strategic business acquisition and growth. There is also opportunity to support the financial and environmental sustainability of industries that are anticipated to be challenged by, but able to transition toward a net-zero emissions economy.

RCP 8.5 at 2060 with no resilience adjustment    RCP 8.5 at 2060 with resilience adjustment    RCP 4.5 at 2060 with resilience adjustment

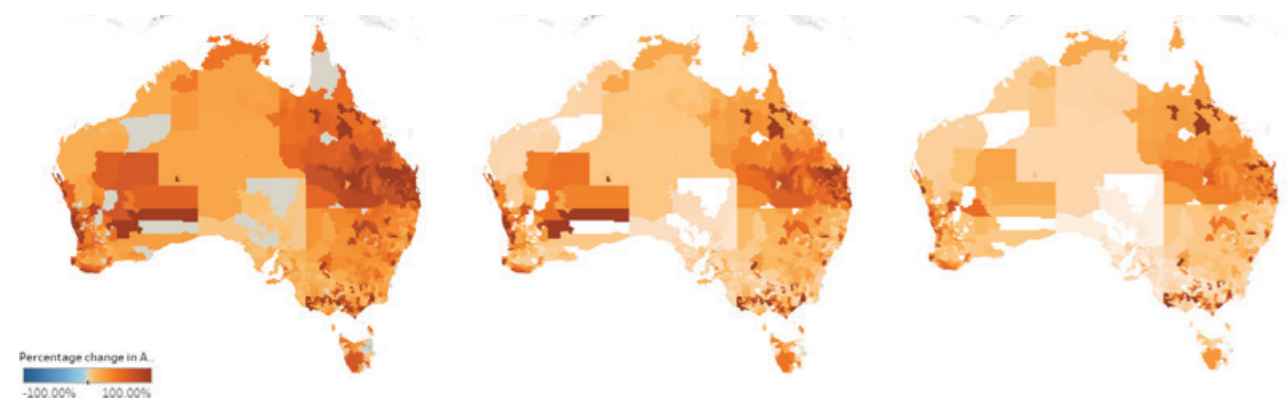


Figure 1: Changes to AAL (per cent) - a more resilient built environment and a lower global warming pathway (represented in the map furthest right) are both key drivers to achieve sustainable insurance.

1. [climateworksaustralia.org/resource/decarbonisation-futures-solutions-actions-and-benchmarks-for-a-net-zero-emissions-australia/](https://climateworksaustralia.org/resource/decarbonisation-futures-solutions-actions-and-benchmarks-for-a-net-zero-emissions-australia/)



# Managing climate-related risks through integration into Suncorp's overall risk management

The management of climate-related risks are embedded in our business through:

- **Strategic plans** including our Group Strategic and Business Plans, Climate Change Action Plan focusing on climate risk and natural hazard resilience, and our Environmental Performance Plan including our Renewable Energy Strategy
- **Financial planning** including integration of climate change into risk modelling and pricing, reinsurance and Natural Hazard Aggregate Protection
- **Policy and Guidelines** including our Insurance Risk Standard, Retail and Business Credit Policy and Lending Assessments, Responsible Investment Policy, Responsible Banking & Insurance Policy and Sensitive Sector Guidelines
- **Organisational capability building** including participation in industry working groups.

## Strategic and business plans

Our 2021–23 Group Business Plan identifies climate change and resilience as one of six strategic risks Suncorp faces and incorporates it into our Enterprise Risk Management Framework. Suncorp management reports to the Group Board Risk Committee each quarter on the risk of climate change and every six months on the ongoing implementation of Suncorp's CCAP as the overarching framework for the monitoring and mitigation of climate change as a strategic risk.

Insurance risks associated with climate change impacts on natural hazards are also considered in the 2021–23 Insurance Australia and New Zealand Business Plans and the Insurance Risk Appetite Statement, as a fundamental part of pricing our portfolios. Suncorp addresses insurance risk dynamically and monitors it through day-to-day management and the Insurance Risk Committees on an ongoing basis.

Similarly, Bank credit risks are addressed in the 2021–23 Suncorp Bank Business Plan, managed within the parameters of the Risk Appetite Statement and monitored by the Banking and Wealth Risk Committee on an ongoing basis.

Suncorp's Climate Change Leadership Group implements our CCAP which includes five key programs of work to assess and manage climate-related risks. Suncorp is on track to fulfil its CCAP and Environmental Performance Plan commitments to: strengthen our governance processes; reduce our environmental footprint; increase community resilience; accelerate emerging opportunities and climate-related innovation; and track and openly disclose our climate-related performance.

Suncorp has refreshed and republished our Environmental Performance Plan with our Renewable Energy Strategy being implemented to reduce our operational greenhouse gas emissions. Through our Natural Hazard Resilience Program, we continue to advocate for investment in resilience building and influence government policy.

## Integration of climate change research into insurance modelling and pricing

Insurance premiums charged today are a function of the probability that a customer is affected by a natural hazard, the features of their property and the estimated damage done by the hazard – resilience to extreme weather is therefore an important consideration and is factored into the calculation of insurance premiums. The effect of non-climate factors, such as population changes and building resilience, are also considered when assessing natural hazard risk. Suncorp incorporates climate change research into insurance model reviews as standard practice. Our Insurance Natural Perils Pricing team conducts ongoing research into the consequences of a changing climate on the frequency and intensity of natural hazards. This research includes understanding the effects of a future warming climate on future natural hazard risk.

Insurance prices set by Suncorp are for a short period into the future. Any change to the risk that occurs due to climate change or other factors can be addressed dynamically through a range of mechanisms including risk selection and underwriting practices, premiums that adjust for risk and associated capital and reinsurance costs, and geographical and product diversification. Suncorp works with experts including universities, reinsurers and natural hazard specialists on an ongoing basis to take a long term view of pricing sufficiency.

## Reinsurance and Natural Hazard Aggregate Protection

Suncorp structures our reinsurance to optimise capital and cost and protect against earnings volatility. In addition to the Natural Perils Pricing team, Suncorp's Actuarial Modelling team use Suncorp's historical dataset of natural hazard events, as well as external vendor models, to estimate the cost of natural hazards in the year ahead given the planned portfolio and pricing. Our scenario analysis on the physical risks of climate change will help inform how to gradually adjust this modelling to capture the outlook of climate risk and how the impacts affect regional areas differently.

Suncorp retains some exposure to natural hazard risk and reviews our reinsurance annually. This review considers loss experience, reinsurance market conditions and risk appetite. Elements of the reinsurance program ensure sufficient capital following natural hazards events that are low in probability but high in severity. Other elements of the reinsurance program reduce the impact of medium-sized events impacting earnings volatility. For the last four years, Suncorp's earnings volatility protection has provided material protection against the frequency of medium-sized events, particularly in 2019–20. The 2019–20 Suncorp natural hazards allowance of \$820 million was not exceeded due to the reinsurance protection of the combination of the Natural Hazards Aggregate Protection and the Aggregate Stop Loss.

## Insurance Risk Standard

Suncorp's Enterprise Risk Management Framework governs the identification, management, control and monitoring of risks, including risks presented by climate change. This is addressed in more detail in Suncorp's Insurance Risk Standard, which focuses on insurance product design, pricing, underwriting, claims management and reinsurance within the Insurance business.

## Retail and Business Lending Credit Policy and Assessments

Suncorp's Bank Credit Risk Management Policy focuses on governing, assessing and approving credit risk exposures. Bank credit risks are managed within the parameters of the Risk Appetite Statement and monitored by the Banking and Wealth Risk Committees on an ongoing basis.

Suncorp Bank does not specifically integrate climate change considerations into residential lending risk assessments; however, a property valuation is required for a new loan application and this valuation identifies exposure to potential risks such as flooding. Suncorp Bank has identified postcodes where heightened risks of flooding are present and applications from these postcodes are flagged for more stringent assessment. Suncorp Bank relies on property owners maintaining appropriate insurance cover to protect the underlying collateral value from risk, include those stemming from climate change.

Long term average rainfall patterns and volatility are key risk characteristics used in the assessment of agribusiness lending.

## Responsible Investment Policy and Shadow Carbon Price

Suncorp's Responsible Investment team manages the environmental, social and governance (ESG) risks and opportunities in Suncorp's investment portfolios under our Responsible Investment Policy. The Policy ensures ESG considerations are factored into investment manager selection and the evaluation of investment risks and opportunities and provides criteria for screening potential and existing investments.

A shadow carbon price is applied to manage the risk of stranded assets in the transition to a net-zero emissions economy. The shadow carbon price is set according to a path that is consistent with the aim of the Paris Agreement to keep global temperature rise this century well below 2°C. The shadow carbon price is reviewed every year and in 2019–20 was set at US\$25 per ton CO<sub>2</sub>e.

## Responsible Banking and Insurance Policy

Our Responsible Banking & Insurance Policy establishes Suncorp's approach to the management of ESG risks and opportunities across Suncorp's banking and wealth, and insurance businesses. It seeks to align Suncorp's institutional conduct and business practices with positive customer, environmental and social outcomes now and into the future.

## Fossil Fuels and Sensitive Sector Guidelines

To support implementation of the Responsible Investment and Responsible Banking & Insurance Policies, Suncorp has a range of Sensitive Sector Guidelines to respond to environmental and social risks in our business across our investment, banking and insurance portfolios. In 2020, we strengthened our Fossil Fuels Sensitive Sector Guideline so Suncorp's businesses will not directly invest in, finance or underwrite new thermal coal mining projects or electricity generation, or new oil and gas projects. Suncorp has a target to phase out existing thermal coal exposures by 2025, as well as phase out underwriting oil and gas by 2025 and directly investing in oil and gas by 2040.

## Industry working groups

Suncorp participates in industry collaborations to support our understanding and response to climate change risks and opportunities. Suncorp is a signatory to the United Nations Principles of Sustainable Insurance, Principles of Responsible Banking and Principles of Responsible Investment as well as a member of the United Nations Global Compact. We have representatives on the Insurance Council of Australia Climate Action Committee, New Zealand Sustainable Business Council, Australian Banking Association's Corporate Responsibility Working Group and Climate Vulnerability Testing Working Group, Actuaries Institute Climate Change Working Group, Australian Sustainable Finance Initiative, Climate Measurement Standards Initiative, Climate Leaders Coalition (NZ) and Mindereroo Foundation Wildfire and Disaster Resilience Program.

More information on managing risk at Suncorp is available in the Corporate Governance Statement on our website [suncorpgroup.com.au/uploads/Corporate-Governance-Statement.pdf](https://suncorpgroup.com.au/uploads/Corporate-Governance-Statement.pdf)

# Suncorp's climate-related metrics and targets

## Natural hazard costs

Annual natural hazard claims costs relative to long-run allowances are a key indicator to assess average short term extreme weather-related risk exposure, noting that the influence and management of climate change risk is implicit in this approach. While changes in natural hazard claims costs offer insight into weather risk exposure, they are also affected by other external variables such as economic, technology, asset value or population changes.

Natural hazard claims costs for 2019–20 were \$820 million, which was in line with our natural hazard allowance; compared to \$849 million in 2018–19 which was \$129 million above the annual allowance of \$720 million.

For further details about Suncorp's insurance business performance see the Operating and Financial Review in the 2019–20 Annual Report at [suncorpgroup.com.au/investors/reports](http://suncorpgroup.com.au/investors/reports)

## Carbon intensity of investments

Suncorp measures and monitors its investment in low carbon solutions, with the total amount invested in low carbon assets reported in the 2019–20 Responsible Business Report at [suncorpgroup.com.au/cr/reports](http://suncorpgroup.com.au/cr/reports)

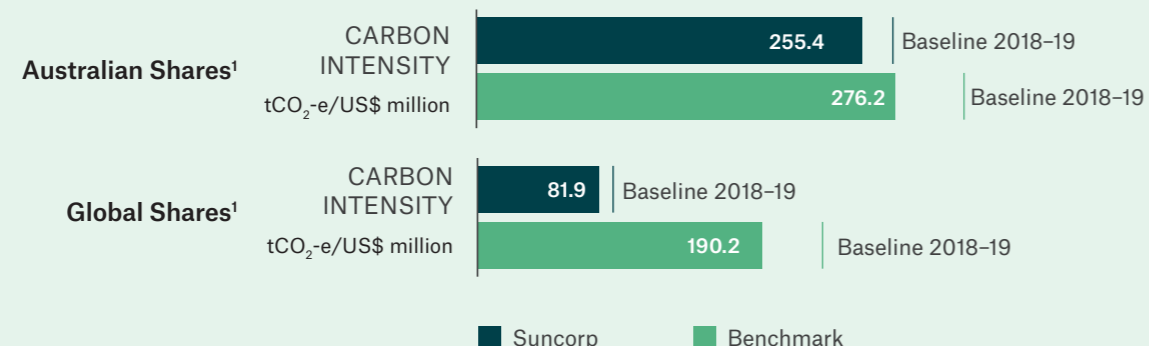
As at 30 June 2020, low-carbon investment totalled \$236 million, including:

- Green bonds (\$185 million, down from \$256 million in 2018–19). Green bonds are used to finance environmentally sustainable projects which facilitate the transition to a low-carbon economy.
- Other low-carbon assets (\$51 million, down from \$54 million in 2018–19). This includes renewable energy infrastructure, renewable energy credit and equity securities, and energy efficient real estate.

As with all risk assets, the financial impacts of investment in low-carbon assets and securities are market dependent and only measurable on an ex-post basis. To date Suncorp's investment in low-carbon financial and real assets has been consistent with our expectations.

Suncorp measures and monitors the carbon intensity of individual securities as well as aggregate portfolios based on relative investment share, in association with ESG research firm Sustainalytics. Overall, Suncorp's Australian shares portfolio is 7.5 per cent less carbon intensive than the benchmark<sup>1</sup>. For global shares, Suncorp's portfolio is 56.9 per cent less carbon intensive than the benchmark.

### Suncorp Equity Portfolios



## Exposure to fossil fuels

As at 30 June 2020 fossil fuel extraction and electricity generation activities made up less than 0.1 per cent of general insurance gross written premium. Fossil fuel exposure is less than 0.5 per cent of insurance and shareholder investment assets, and less than 1.5 per cent of total investment assets under management (i.e. inclusive of wealth and investment assets managed on behalf of third parties).

Suncorp's commercial lending portfolio has no exposure to fossil fuel extraction or power generation.

Suncorp's businesses will not directly invest in, finance or underwrite new thermal coal mining projects or electricity generation, or new oil and gas projects. Suncorp has a target to phase out existing thermal coal exposures by 2025, as well as phase out underwriting oil and gas by 2025 and directly investing in oil and gas by 2040.

# Suncorp's emissions and targets

Managing and reducing our environmental footprint is a core commitment of our CCAP and is driven by our Environmental Performance Plan. In 2019, Suncorp set a science-based target for scope 1 and scope 2 greenhouse gas (GHG) emissions reduction of 51 per cent reduction in absolute emissions by 2030 and achieving net-zero by 2050 based on a 2017–18 baseline.

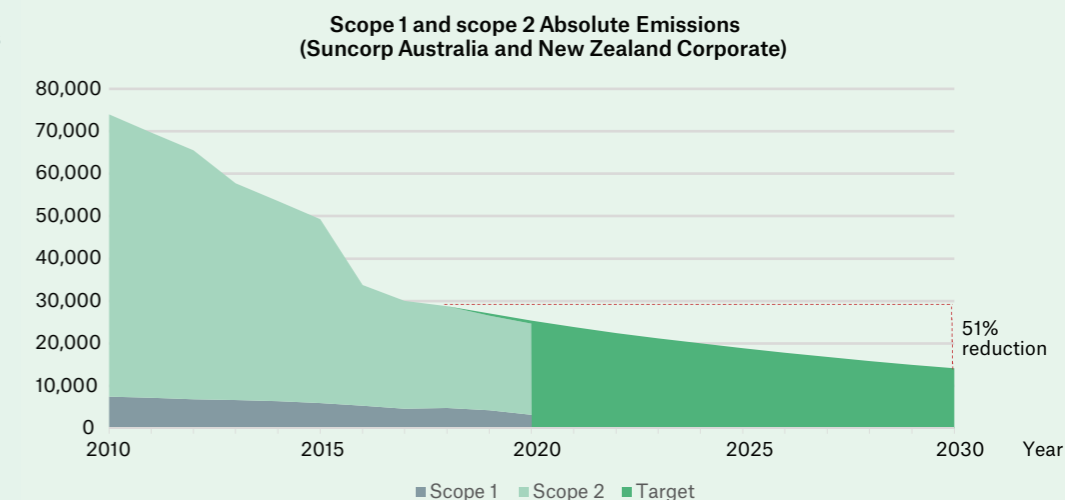
While we are on track to achieving these targets, this year we have accelerated efforts to reduce emissions and, in line with our commitments to support the transition to a net-zero emissions economy, have begun implementation of a Renewable Energy Strategy. Suncorp has joined RE100 with a commitment to source 100 per cent renewable electricity across our operations by 2025.

GREENHOUSE GAS EMISSIONS <sup>2</sup>		2020	2019	2018	2017	2016
Scope 1 greenhouse gas emissions (CO <sub>2</sub> -e tonnes)						
- Australia		2,796	3,741	4,211	4,519	5,306
- New Zealand <sup>3</sup>		363	467	566	-	-
- Suncorp Insurance Ventures <sup>4</sup>		1,305	3,836	3,870	-	-
Scope 2 greenhouse gas emissions (CO <sub>2</sub> -e tonnes)						
- Australia		21,323	22,160	23,741	25,480	28,378
- New Zealand <sup>3</sup>		103	133	214	-	-
- Suncorp Insurance Ventures <sup>4</sup>		3,067	8,747	9,181	-	-
Scope 3 greenhouse gas emissions <sup>5</sup> (CO <sub>2</sub> -e tonnes)						
- Australia		8,733	10,767	12,358	-	-
- New Zealand <sup>3</sup>		337	551	602	-	-
Total greenhouse gas emissions (CO <sub>2</sub> -e tonnes)						
- Australia		32,852	36,668	40,310	-	-
- New Zealand <sup>3</sup>		803	1,151	1,382	-	-
- Suncorp Insurance Ventures <sup>4</sup>		4,372	12,583	13,051	-	-

Suncorp has previously reported against a reduction in emissions intensity for our industrial operations (Suncorp Insurance Ventures). As this business was sold on 31 October 2019 the intensity-based target for Suncorp Insurance Ventures is no longer relevant and will no longer be tracked.

Suncorp is contributing to a global working group with the Science Based Targets Initiative focused on developing scope 3 emissions target-setting methods, criteria and guidance for financial institutions.

### Suncorp's emissions performance and targeted reduction



<sup>1</sup> Based on Global Investor Coalition definition. See section 2.4 for full definition: [globalinvestorcoalition.org/wp-content/uploads/2012/11/LowCarbonInvestmentRegistry\\_Final.pdf](http://globalinvestorcoalition.org/wp-content/uploads/2012/11/LowCarbonInvestmentRegistry_Final.pdf)  
<sup>2</sup> Environmental metrics are prepared on an 11+1 basis. <sup>3</sup> 2019 numbers restated to reflect transition to improved methodology or updated data. <sup>4</sup> Reflects the performance of Suncorp Insurance Ventures including Capital S.M.A.R.T. and ACM Parts up until the date of sale on 31 October 2019. <sup>5</sup> Based on emissions from paper consumption, waste generated in operations, business air travel, and fuel and energy related activities



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