



Sustainability as Long-term Value Driver:

The Corporate Governance Perspective



Dr. Patrick Raaflaub

Chief Risk Officer, Swiss Re



Reto Schnarwiler

Head Sustainability, Swiss Re

The Momentum around Sustainability Has Increased Noticeably

Alerting reports from the Club of Rome and the United Nations Environment Programme in the early seventies marked the beginning of an emerging environmental movement and alerted people worldwide to the dangers of climate change, pollution as well as unlimited resource consumption. Nowadays, not a day goes by without pressing environmental and social topics making global headlines, whether they are related to climate change, inequalities or poor governance. And this is expected to continue and even become more relevant.

In 2015, the United Nations set the 17 Sustainable Development Goals (SDGs) as the world's best plan to build a better world for people and our planet by 2030. The SDGs are a call for action by all countries to promote prosperity while protecting the environment. They recognize that ending poverty must go hand in hand with strategies aimed at building economic growth and addressing a range of social needs, including education, health, equality, and job opportunities, while tackling climate change and working to preserve our oceans and forests.

The COVID-19 pandemic has highlighted that global sustainability challenges require solidarity and urgent collaborative action. It has also made clear that resilience is essential. Resilience is critical in how the world responds to climate change as further temperature increases are now nearly certain. Our communities and institutions must succeed in planning for and adapting to climate change or risk further tragedy and loss of life. The current crisis must not overshadow the need for the world to transition to a more sustainable economy and a low-carbon future.

Sustainable Development has been defined as «development that meets the needs of the present without compromising the ability of future generations to meet their own needs».



SUSTAINABLE DEVELOPMENT GOALS

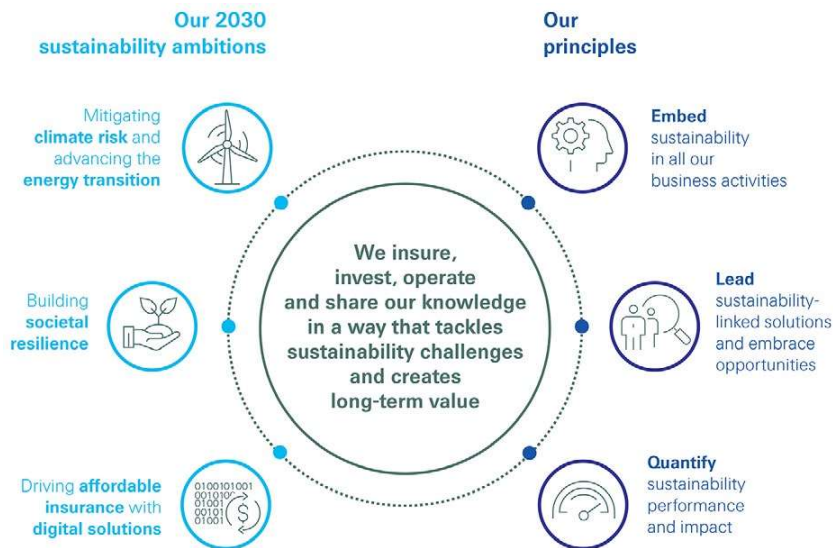


Sustainable development is not limited to the public sector. Businesses around the world are encouraged to adopt sustainable and socially responsible policies, and to report on their implementation. And as the expectations on corporate responsibility rise and transparency becomes more prevalent, companies increasingly recognize the need to act on sustainability. Professional communication and good intentions are no longer enough. Companies are increasingly challenged by investors, clients, regulators, and employees to address sustainability topics. Notably, this does not come at the cost of shareholder value as there is no fundamental contradiction between concern for the environment or social responsibility and the drive for profitability.

For progressive companies, sustainability is not only considered a long-term value driver but essential for the longer-term viability of a business. It is not only «the right thing to do» but also creates sizeable opportunities to grow the business and / or drive profitability. In the long run, only sustainable business is good business.

In the last few years, sustainable business has been booming. For example, sustainable investments in Switzerland have increased from CHF 215 billion in 2015 to CHF 1.16 trillion in 2019¹. This growth trend will continue as the implementation of the SDGs is expected to unlock USD 12 trillion a year globally by 2030². This is more than 10% of global GDP and is estimated to create about 380 million new jobs.

1 Swiss Sustainable Finance: «Swiss Sustainable Investment Market Study 2020»
 2 www.unpri.org/sdgs/the-sdgs-will-drive-global-economic-growth/307.article



Embracing Sustainability to Ensure a Company's Long-term Viability

The Board of Directors of a company determines the strategic goals, the general ways and means to achieve them, and the persons responsible for conducting the company's business. This is especially relevant for Swiss companies as the law³ specifically allocates these responsibilities to the Board of Directors. As sustainability is a long-term value driver that is aimed at securing a company's survival, the Board also plays a decisive role in embedding sustainability in the strategy and the core business of a company.

The Board should therefore ensure that sustainability considerations become an integral part of the business strategy. In doing so, it sets the tone at the top for a strong sustainability culture in the company. The business mission and vision drive the sustainability strategy. As the latter considers sustainability risks and opportunities, it plays an important role in the development of a viable and effective overall business strategy.

Failure to address sustainability issues can have severe consequences. For example, it can lead to higher cost of capital as responsible investors no longer invest in these companies. It could impact turnover as conscious clients walk away. And it can impact employee engagement as the workforce does not believe in the long-term purpose of a company.

Swiss Re Has Been a Sustainability Leader for Many Years

Swiss Re has a long-standing commitment to be a responsible company. A guiding principle of acting responsibly is to take a long-term view and play a part in enabling sustainable progress, to the benefit of clients and society at large. This principle is integrated into Swiss Re's value framework as part of what is called «doing business the Swiss Re way».

3 Article 716a, Swiss Code of Obligations

Swiss Re strives to make the world more resilient by offering risk transfer products that help individuals, businesses, and economies to recover after unexpected setbacks and catastrophes. With this, Swiss Re aims to tackle society's challenges such as climate change, pandemics, or demographic developments, and at the same time enable sustainable progress.

Swiss Re updated its Group Sustainability Strategy in 2019. By doing so, sustainability moved closer to the core and purpose of its strategy. With this Swiss Re increases its focus on opportunities for growth across products and services, investments, and operations and promotes sustainability as an integral part of the company. It also means improving the quantification of its sustainability performance, including the impact on society and the environment.

Through the Group Sustainability Strategy, Swiss Re aims to reinforce its efforts to make the world more resilient and sustainable, thus helping to maintain Swiss Re's competitiveness today and in the future. For Swiss Re sustainable re/insurance is a strategic approach where all activities in the insurance value chain are carried out in a responsible and forward-looking way. This involves managing risks and opportunities associated with sustainability issues.

Key Elements of Swiss Re's Group Sustainability Strategy

Swiss Re's Sustainability Mission is derived from its overall vision of making the world more resilient, to the benefit of all our key stakeholders:

We insure, invest, operate and share our knowledge in a way that tackles sustainability challenges and creates long-term value.

The 2030 sustainability ambitions provide this mission with topical focus areas, and the principles guide the practical work.

The Role of the Board of Directors

Swiss Re's Board of Directors is responsible for overseeing the development and adoption of the Group Sustainability Strategy and related policies. Detailed tasks have been assigned to four Board committees:

- Based on regular updates from management and the sustainability team, the Chairman's and Governance Committee monitors and reviews general progress on the Group's Sustainability Strategy, including all sustainability-related external engagements.
- The Board's Investment Committee reviews Swiss Re's Asset Management activities and, as part of this, receives regular updates on the Group Asset Management's responsible investing approach.
- The Board's Finance and Risk Committee defines the Group Risk Policy, reviews risk capacity limits, monitors adherence to risk tolerance, and reviews all top risk issues and exposures, including those with a specific sustainability dimension.
- The Board Compensation Committee defines Sustainability Key Performance Indicators that are relevant for the compensation of the Group Executive Committee (and beyond).

Executive Management Oversees Implementation

While the Board is responsible for oversight, the Group Executive Committee (Group EC) approves the implementation of the Group Sustainability Strategy. As part of its mandate, it approves detailed sustainability policies, such as the thermal coal policy introduced in 2018. Furthermore, it sets and monitors risk capacity limits (including for natural catastrophes) and determines product policy and underwriting standards. Furthermore, a number of qualitative key performance indicators to the Group EC and its individual members were introduced.

In order to optimise coordination at Group level, the Group EC has established a Group Sustainability Council (GSC), chaired by the Group Chief Risk Officer. The GSC is an advisory Board to the Group EC. It is composed of Group EC members and further senior management representatives.

The Group EC members who head Swiss Re's Business Units and Group Functions have explicit tasks related to sustainability. These include but are not limited to the following:

- The Group Chief Risk Officer (Group CRO) is responsible for providing the Board and Group EC with independent assurance that all Swiss Re's risks are being appropriately modelled, governed and managed, and that adequate controls are in place. As part of executing these responsibilities, the Group CRO is charged with establishing the Group's Risk Management Framework for all risk categories, including sustainability and emerging risks. In addition, the Group CRO is also chairing the GSC. In this role, he guides the GSC coordination of sustainability activities across the Swiss Re Group.
- The Group Chief Investment Officer (Group CIO) has overall responsibility for the Group Asset Management and its investment result, and with that also for the consistent integration of environmental, social and governance (ESG) aspects along the investment process.
- The Group Chief Financial Officer (Group CFO) is responsible for the Group-wide Finance function with a focus on steering and achieving the Group's financial targets. He is also responsible for Swiss Re's investor relations and public disclosures, including the Group Annual Report (which includes our climate-related Financial Disclosures).
- The Group Chief Underwriting Officer (Group CUO) and Chairman of the Swiss Re Institute is responsible for steering capital to the most attractive areas in underwriting that are of strategic importance for the Group's underwriting and overseeing research and development that improves both capital allocation and risk selection. The Institute's research agenda also includes sustainability and resilience-related topics.

- The Group Chief Operating Officer (Group COO) is responsible for the Group-wide operations functions. This responsibility includes overseeing Communications, Human Resources, the Corporate Real Estate & Services (CRES) division, Global Sourcing and IT. CRES steers and monitors the reduction of Swiss Re's environmental footprint and is in charge of Swiss Re's Greenhouse Neutral Programme to reduce our own CO₂ emissions as well as the new commitment to reach net-zero CO₂ emissions in our operations by 2030.

Sustainability Efforts Are Widely Acknowledged

Swiss Re's sustainability efforts are also reflected in strong sustainability ratings from leading agencies, including MSCI where Swiss Re scored a AAA rating, or DJSI where Swiss Re is listed among the insurance sector leaders.

With its sustainability strategy Swiss Re is well positioned to address pressing sustainability challenges and to benefit from related opportunities for its business. The sustainability strategy builds on a successful track record and further sharpens Swiss Re's commitment. It clearly defines sustainability as a strategic, long-term value driver and embeds this approach throughout the business. It thus supports the ability to meet Swiss Re's vision to «make the world more resilient», which gives the company a strong sense of purpose benefiting all its key stakeholders.