

PROFILES OF INVESTOR SYSTEMS AND RELATED APPROACHES

SWISS REINSURANCE (SWISS RE)

Asset owner: Insurance company * Headquarters: Switzerland * AUM: US\$215 billion (2016)¹

AT A GLANCE

Swiss Re is a global reinsurance company that provides re/insurance services in more than 30 countries. It acknowledges the risks posed to the long-term health of its business profile by climate change, human rights violations, and other sustainability issues and screens prospective investments against environmental, social, and governance (ESG) and other sustainability considerations.

Beyond its concern for the impact of sustainability risks on its portfolio, Swiss Re also recognizes that—as a long-term investor—it can positively or negatively impact social and environmental systems. As such, its *Sustainability Risk Framework* aims to ensure that the firm is not only avoiding risks, but that it is also contributing to positive social and environmental impacts and change.

TOOLS OF INTENTIONALITY

- | | |
|--|---|
| <input type="checkbox"/> Additionality | <input type="checkbox"/> Polity |
| <input type="checkbox"/> Diversity of Approach | <input checked="" type="checkbox"/> Self-Organization |
| <input type="checkbox"/> Evaluations | <input type="checkbox"/> Solutions |
| <input type="checkbox"/> Interconnectedness | <input checked="" type="checkbox"/> Standards Setting |
| <input type="checkbox"/> Locality | <input type="checkbox"/> Utility |

ON-RAMPS

- | | |
|---|--|
| <input checked="" type="checkbox"/> ESG integration | <input checked="" type="checkbox"/> Long-term value creation |
| <input type="checkbox"/> Impact investment | <input type="checkbox"/> Universal ownership |
| <input type="checkbox"/> Investment stewardship | |

ASSET CLASSES INTEGRATED INTO

- | | |
|---|---|
| <input checked="" type="checkbox"/> Fixed income | <input checked="" type="checkbox"/> Public equities |
| <input type="checkbox"/> Infrastructure and real assets | <input checked="" type="checkbox"/> Real estate |
| <input checked="" type="checkbox"/> Private equity | <input type="checkbox"/> Venture capital |
| <input type="checkbox"/> Other | |

YEARS INTEGRATING

Swiss Re reports that it has been considering the risks that climate change and related environmental issues pose to their business operations for nearly 30 years. It has otherwise been formally integrating environmental considerations for **18 years**, since 1999 when it published its first Corporate Sustainability Report (formerly its Corporate Environmental Report), which

SYSTEMS & THEMES FOCUSED ON

- | |
|--|
| <input checked="" type="checkbox"/> Environmental |
| <input type="checkbox"/> Biodiversity |
| <input checked="" type="checkbox"/> Climate change |
| <input type="checkbox"/> Natural resources |
| <input type="checkbox"/> Oceans |
| <input checked="" type="checkbox"/> Renewable energy |
| <input type="checkbox"/> Sustainable land use |
| <input type="checkbox"/> Waste management and pollution |
| <input type="checkbox"/> Water |
| <input type="checkbox"/> Other |
| <input checked="" type="checkbox"/> Societal |
| <input type="checkbox"/> Consumer health and safety |
| <input type="checkbox"/> Corporate governance |
| <input type="checkbox"/> Corruption |
| <input type="checkbox"/> Employment, labor rights and working conditions |
| <input checked="" type="checkbox"/> Food production and security |
| <input type="checkbox"/> Human rights |
| <input type="checkbox"/> Income inequality and financial inclusion |
| <input type="checkbox"/> Infrastructure |
| <input type="checkbox"/> Social equality and diversity |
| <input type="checkbox"/> Other |
| <input type="checkbox"/> Financial |
| <input type="checkbox"/> Shareholder rights |
| <input type="checkbox"/> Stability |
| <input type="checkbox"/> Transparency |

outlines its sustainability approaches and practices.

Other

TOOLS OF INTENTIONALITY: THE SWISS RE "TIIPING" POINT

Swiss Re has taken intentional steps to use the tools of **Self-Organization** and **Standards Setting** to address environmental, human rights, and other sustainability considerations, and to manage its impact on environmental and societal systems.

- Through its Center for Global Dialogue, Swiss Re **organizes** insurers, government officials, financial professionals and representatives from various non-government organizations to develop insurance-based solutions, partnerships and strategies to bolster environmental resilience, address global problems, and exchange best practices to advance risk management. It also serves on the Board of the Principles for Responsible Insurance as well as the Board of the Taskforce for Climate-Related Disclosure, and has a partnership with the London School of Economic to evaluate policy tools that can attract large infrastructure investment.
- Swiss Re requires that all prospective investments meet minimum sustainability **standards** and excludes from investment sectors and bonds from countries known to pose environmental or human rights risks.

ABOUT SWISS RE

Swiss Re is a global insurance company founded in 1863 that provides insurance and reinsurance services to insurance companies, mid-to-large-sized corporations, and public-sector clients internationally. It has over 8500 staff working in more than 30 countries.

As a reinsurer, Swiss Re is particularly concerned with identifying and considering environmental and other sustainability risks as part of its insurance underwriting and investment practices. To this end, it (a) incorporates assessments of **climate change** and natural disaster risk, **food production and security**, and **energy (renewable energy)** risks into its various decision-making processes, and (b) works to increase the understanding of these risks and their materiality across its divisions.

Swiss Re's *Sustainability Risk Framework* guides its approaches to responsible investing and to assessing environmental, human rights, and other sustainability risks as part of investment. Doing so, it says, "makes economic sense because it improves risk/return profiles" and is important for "generating sustainable long-term returns" (Swiss Re (2017a): 39).² It aligns its approach to **ESG integration**, in part, with the guidelines provided to signatories of the U.N. Principles for Responsible Investment (PRI) and the Principles for Sustainable Insurance (PSI).

Beyond considering the implications of such risks on its insurance and investment businesses, Swiss Re also recognizes that, as a **long-term investor**, it can intentionally invest to "strengthen the resilience of citizens, businesses, local and national economics and societies" (Swiss Re (2017a): 45). As such, the Framework also helps Swiss Re "identify and address the potentially negative effects of [its] transactions on local communities, workforces and the environment" (Swiss Re (2017a): 28). Swiss Re also aims to "contribute to" the realization of the **U.N. Sustainable Development Goals** (particularly goals 7 (ensuring access to affordable, reliable, sustainable and modern energy), 12 (ensuring sustainable consumption and production patterns), 13 (taking action to combat climate change and its impacts), and 17 (partnering for the goals)).

APPROACHES IN PRACTICE

➤ INVESTMENT ACTIVITIES

Investment beliefs statements

N/A

Security selection & portfolio construction

Swiss Re assesses all potential fixed income and public equities investments in accordance with its *Sustainability Risk Framework*, which specifies its approach to ESG integration. As part this approach, Swiss Re reviews all benchmark-eligible investments against ESG benchmarks and invests only in those that exceed a minimum ESG rating. Managers of actively managed portfolios can invest a small portion of the portfolio in “off-benchmark investments with additional ESG rating restrictions based on their own ESG assessment” (Swiss Re (2017c): 23).

The Framework also outlines the following other components of fixed income and equities investment selection:

- **Human rights and environmental protection policies.** The *Framework* uses “two umbrella policies on human rights and environmental protection and seven guidelines for seven sensitive sectors or issues” (Swiss Re (2017a): 28). These sectors, which pose “major sustainability risks,” include the defense industry, oil and gas, mining, dams, animal testing, forestry, pulp and paper, and oil palm, and nuclear weapons (Swiss Re (2017a): 29).
- **The Sensitive Business Risks (SBR) process**, which aggregates the information from the various *Framework* components to assesses prospective investments. The SBR uses two due diligence tools— an online tool and a referral tool —to screen transactions against environmental and human rights standards. Swiss Re’s sustainability experts assess those investments flagged as in potential violation of firm standards and recommends whether to invest, proceed with conditions, or abstain.
- **Company exclusions.** Swiss Re excludes from investment companies involved in the production of prohibited war material, have verifiable complicity in systemic, repeated and severe human rights violations, have caused repeated, serious and unmitigated damage to the environment, are involved in the unregulated proliferation of nuclear weapons, and are involved in the unethical/cruel animal testing practices. Swiss Re may also abstain from investment in companies that derive more than 30% of their revenue from thermal coal, or “use at least 30% thermal coal for power generation” as a means of protecting against stranded assets (Swiss Re (2017c): 27).
- **Country exclusions beyond compliance with International Trade Controls.** Swiss Re excludes from investment countries that have a history of human rights violations. This list is evaluated annually, but as of 2016, these countries included Central African Republic, Chad, DR Congo, North Korea, Somalia, Sudan (both North and South) and Syria. In 2016, Swiss Re hired an external research company to assess the political risk and economic and environmental issues affecting the stability and resilience of a country, and uses this information to screen its government bond assets accordingly.

All Swiss Re’s new real estate investments and renovations to existing real estate investments in Switzerland must be compliant with the MINERGIE® standard, a Swiss energy efficiency standard which “ensures quality assurance in the planning, construction and operating phases” (Minergie (2017)). Likewise, in the U.S. real estate market, buildings must align with the “GreenGuide: Sustainable Property Operations”, a best practice guideline for sustainable and efficient real estate operations; ‘ULI GreenPrint Foundation’, a global environmental management platform; and ‘LEED Certification’ from the United States Green Building Council” (Swiss Re (2017a): 41).

Highlights:

Conducted SBR checks on 7,137 transactions in 2016; referred 219 for further assessment; issued negative recommendations for 21 and positive recommendations with conditions for 20.

Corporate engagements

Swiss Re identifies opportunities for dialogue and engagement with companies when it assesses prospective investments through its SBR process. Underwriters engage with those companies that the Sustainability team recommend Swiss Re invest in “with conditions”; specifically, the “underwriter will engage with the client on specific questions about human rights issues or environmental protection, in line with the requirements of the [U.N. Guiding Principles on Business and Human Rights]” (Swiss Re (2017a): 32). Swiss Re also engages with investees that have “comparatively low sustainability performance” to highlight areas of concern, educate the investee on human rights and environmental protection expectations, and promote improvements to its overall sustainability management.

Highlights:

Swiss Re voted against management 585 out of 7,103 times (8%) in 2016.

Targeted investment programs

Swiss Re invests in green bonds as per its credit and rates product mandate, and aims to invest at least \$1.5 billion in green bonds in the coming years. In accordance with the ICMA Green Bond Principles, it uses the debt raised from these green bonds to finance projects that clearly provide environmental benefit. Swiss Re also seeks investment opportunities in renewables, and social infrastructure within its infrastructure private debt mandates as it states, “improving energy efficiency and developing low-carbon technologies, including renewable energy sources, are critical to reducing carbon emissions and securing future energy supplies” (Swiss Re (2017d)).

Manager selection, directives & monitoring

As of 2016, approximately 44% of Swiss Re’s investments—primarily credit products, equities and hedge funds—were managed externally: of these external managers, 97% were PRI signatories. Swiss Re includes specific responsible investing conditions in its external management contracts, and ensures managers are compliant with Swiss Re’s responsible investment strategies before they are appointed. Swiss Re expects all external managers to integrate ESG factors into investment decision making and monitoring, and monitors their performance against various ESG benchmarks. It conducts annual reviews of externally managed portfolios using ratings provided by external ESG research companies that help it to assess the “quality of the portfolio and to gain further insight into ESG risk exposures” (Swiss Re (2017a): 40).

Swiss Re requires regular reporting on responsible investing activity from its managers.

➤ OTHER ACTIVITIES

Collaboratively publishes reports recommending action to bolster energy system resilience

In collaboration with the World Energy Council and Marsh and McLennan Companies, Swiss Re published The Road to Resilience: Financing Resilient Energy Infrastructure in 2016. This report summarizes three studies on the most pressing risks to the global energy sector: extreme weather, energy-water-food dependencies and cybercrime, and recommends seven actionable items for governments, business leaders and the financial sector—with an emphasis on insurance—to advance the financing of “resilient energy infrastructure” (Swiss Re (2017a): 43).

Partners to promote sustainability within the financial community

Swiss Re partners with various organizations and institutions to strengthen the resilience of systems through advocacy and regulation within the insurance community and by exploring policy as a means of attracting investment in sustainable development.

- **Principles for Sustainable Insurance (PSI).** Swiss Re is one of the first signatories of the PSI, a branch of the United Nations Environmental Programme Finance Initiative, and currently serves on the board. The PSI has now grown to include over 90 companies and institutions globally, all of whom are dedicated to helping their clients operate more sustainably given specific ESG criteria.
- **London School of Economics and Political Science (LSE).** Swiss Re partners with LSE to evaluate policy tools that can attract large infrastructure investment. The collaboration stems from Swiss Re's belief that making infrastructure debt a "tradable asset class" has potential to stimulate sustainable economic growth through infrastructure investment (Swiss Re (2017a): 47). The research pertains to "long-term investing and monetary policy" and is working to "analyze the effect of low interest rates on structural reforms, investigate the effect of monetary policy on capital markets and consider alternative monetary policy tools" (Swiss Re (2017a): 47).
- **Task-Force on Climate-related Financial Disclosures (TCFD).** The TCFD is an international coalition working to advance transparency and measurement of climate change risks through standardized disclosures for improved risk management and decision-making. Swiss Re serves on the board of the TCFD.
- **CRO Forum Sustainability Working Group.** The CRO forum is a community of risk managers from the insurance industry working to promote best practices across risk management topics. The Sustainability Working group, which Swiss Re chairs, works to "raise awareness of sustainability challenges relevant to society and the (re-)insurance industry" through shareholder dialogue, solution building and knowledge sharing (CRO Forum (2012): 8).

Facilitates information-sharing through its Center for Global Dialogue

Swiss Re uses its Center for Global Dialogue to foster partnerships among re/insurance companies, United Nations initiatives, governments, regulatory bodies, international experts, think tanks, professionals and civil society to design strategies for promoting sustainable development and greater systemic resilience.

- **Insurance 2030: Policies and Partnerships for Sustainable Development (2014).** Swiss Re and the UN Environment Programme co-hosted a roundtable focused on leveraging re/insurance as a tool to promote sustainable development through product design, investment and collaboration. The roundtable was attended by approximately 60 global leaders from the public and private sector.
- **Partnering for Food Security.** Swiss Re convenes academic institutions, food producers, food safety institutions and re/insurance industry professionals to generate ways of improving food safety and risk mitigation given shifts in eating habits, complex supply chains, growing population, and climate change.

STAFFING

The Group Chief Investment Officer (CIO) is responsible for overseeing implementation of the sustainable investing initiatives at Swiss Re. Swiss Re's ESG Advisory Group—led by the Head of Responsible Investing and consisting of staff from all investment units, legal, and compliance and risk management—executes and monitors firm responsible investment activities.

Swiss Re also has a Group Sustainability department which integrates ESG risks and opportunities into operations and businesses practices, and manages sensitive business risks and dialogue between stakeholders.

Swiss Re requires that underwriters and client managers participate in eLearning training on issues included in the *Sustainability Risk Framework* (human rights and the environment) and on how to use in investment decision-making. More than 2,000 staff completed the training in 2016.

➤ IMPACT MONITORING & REPORTING

Swiss Re publishes an annual Corporate Responsibility Report in addition to the dedicated corporate responsibility chapter in its annual report. The Corporate Responsibility Report features sustainability accomplishments within its insurance products, achievements related to its own environmental footprint, employee engagement and social outreach, information on the Swiss Re Foundation, and its basic responsible investment strategy.

In 2016, Swiss Re started to integrate into its annual Financial Report the recommendations for climate risk disclosures developed by the Financial Stability Board Task Force on Climate-related Financial Disclosures.

POLICY DEVELOPMENT AND MONITORING

The Asset Management Executive Team, Asset Management Investment Committee and the ESG Advisory Group advise the CIO regarding firm sustainable and responsible investment practices.

SUCCESSSES AND CHALLENGES

N/A

SOURCES

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Swiss Re (2017d). <http://www.swissre.com/>. Pages Accessed include “Investors” and “Re Thinking.” Accessed between August 28 and Sept 1, 2017.

The Task Force on Climate Related Financial Disclosures (2017). <https://www.fsb-tcf.org/>. Pages accessed include “About.” Accessed September 1, 2017.

NOTES

¹ Swiss Re (2017b): 35.

² Swiss Re’s website and documents linked to from the website refer to a “responsible investment policy” in addition to its *Sustainability Risk Framework*. TIIP could not locate a policy document or associated information and therefore does not describe the policy in this profile.

³ Information reported is paraphrased and as reported in Swiss Re (2017a): 32.

Profile developed in: August 2017

Profile developed by: The Investment Integration Project (TIIP). TIIP helps institutional investors understand the big picture, or “systems-level,” context of their portfolio-level decisions. “Systems-level” events, such as economic crises, ecosystems under stress, and societies in turmoil can disrupt the best-laid plans of investors and cost them dearly. Even seemingly “local” issues are now having much greater impact than they once did as the world becomes increasingly interconnected.

TERM DEFINITIONS

What are "Tools of Intentionality"?

Tools of intentionality are specific pathways through which investors can bridge the gap between daily portfolio management decision-making and systems-level investing. Investors use these tools intentionally because the portfolio-level discipline of efficiency alone does not naturally lead them to systems-level considerations. Investors can use these tools to manage risks and rewards at systems levels and facilitate impact in a variety of ways.

What are "On-Ramps"?

On-ramps are investment approaches that represent logical extensions of the concept that investment has impact on the world at large—and on its component environmental, societal and financial systems—and that that impact can be managed to maximize these systems' wealth-creating potential in society.

What are "Asset Classes Integrated Into"?

Into which asset classes does the investor incorporate a systems-related approach?

What are "Years Integrating"?

The number of years since investor initiated systems-related approaches.

What is the "Tipping Point"?

Description of investor's primary approaches to adopting/executing system-related considerations.

What is "About"?

General description of the investor and their approach to systems-related investing.

What are "Approaches in Practice"?

How does the investor's systems-related approach manifest itself? We examine five key investment activities as well as other intentional systems-related undertakings. We also look at staffing and impact monitoring and reporting.

What are "Investment Beliefs Statements"?

Inclusion of observations about environmental, societal or governance considerations in the investor's formal investment belief statements or in more general statements of beliefs about the relevance of these considerations at portfolio or systems levels.

What are "Security Selection & Portfolio Construction"?

The incorporation of environmental, social and governance factors into individual security valuation and portfolio construction.

What are "Targeted Investment Programs"?

Creation of specialized sector or theme-based funds with an explicit environmental or social focus and the stated purpose of serving sustainable or responsible investors.

What are "Corporate Engagements"?

Communication on environmental, social and governance issues with corporations indirectly through proxy voting, or directly through individual or collaborative dialogue, the filing of shareholder resolutions, or other means in order to promote improvements in practice.

What are "Manager Selection, Directives and Monitoring"?

Incorporation of systems-related or on-ramp themes into the selection and monitoring of external managers.

What are "Other Activities"?

Additional investment policies and practices beyond those captured in key investment activities. Those intentional policies and practices that seek to achieve systems-goals are highlighted. They vary considerably across investors.

What is "Staffing"?

When information is available, this section describes investor contracting with external entities to execute systems-related approaches; internal personnel whose responsibilities exclusively or primarily include developing, executing or overseeing investor systems-related approaches; committees/groups with systems-related responsibilities; training provided to staff.

What is "Policy Development and Monitoring"?

When information is available, describes the processes undertaken by the investor to develop systems-related approaches.

What is "Impact Monitoring and Reporting"?

Discusses whether and how the investor measures and reports on the non-financial outputs, outcomes or impacts (effectiveness) of its systems-related approaches, or has plans to do so. Also whether and how the investor reports on the content of its systems-related activities.

What are "Successes and Challenges"?

Discusses the main successes and challenges reported by the investor about its systems-related approaches. This includes successes and challenges reported on a TIIP survey or in an interview, or statements describing successes and challenges in publicly available materials.