



FY23 IAG New Zealand Climate-related Disclosure

Whakapuakanga e whai pānga ana ki te Āhuarangi

August 2023

Contents | Rārangi take

This is IAG New Zealand’s second voluntary climate-related disclosure, and it is designed to advance our journey towards compliance with the Aotearoa New Zealand Climate Standards. It also draws on the guidance provided by the Task Force on Climate-related Financial Disclosures (TCFD), and on IAG Group’s previous climate-related disclosures which can be found on the [IAG Group website](#).

Broader information on IAG’s approach to sustainability can be found in our IAG Group Annual Report, available on the [IAG Group website](#).

IAG New Zealand-specific information on our sustainability approach can be found on the [IAG New Zealand website](#).

IAG acknowledges Tāngata Whenua in Aotearoa New Zealand and recognises their customary authority on the lands where our people and buildings are located.

Governance Kāwanatanga:	2
Strategy Rautaki:	4
Risk Management Te Whakahaerenga Tūraru:	14
Metrics & Targets Ngahuru & Whāinga:	16

Important information

No representation or warranty, express or implied, is made as to the accuracy, adequacy, completeness or reliability of any: statements, estimates or opinions, or the accuracy or reliability of the assumptions on which they are based, contained in this document.

To the maximum extent permitted by law, IAG and its respective directors, officers, employees, agents and advisers disclaim all liability and responsibility for any direct or indirect loss, costs or damage which may be suffered by any recipient through use of or reliance on anything contained in, implied by or omitted from this document.

This document is not a recommendation or advice in relation to any product or service offered by IAG New Zealand Limited or Insurance Australia Group Limited (including its subsidiaries). This document is not an invitation, solicitation, recommendation or offer to buy, issue or sell securities or other financial products in any jurisdiction. This document does not take into account the financial situation, investment objectives or particular needs of any person.

Governance | Kāwanatanga

How management assesses and manages climate-related risks and opportunities

We are committed to attaining a high level of corporate governance to ensure the future sustainability of our business, and to provide a sustainable balance between our core business (to pay claims, understand and price risk, manage costs and reduce risk) and our responsibility to provide returns to shareholders. We incorporate the identification and response to climate-related risk in our core governance arrangements to ensure that it is part of, and not separate to, the management of our business. This is also key to our Risk Management Programme, discussed further in the Risk Management section below.

Board accountability

The governance body with overall accountability for New Zealand-specific climate-related risks and opportunities is the IAG New Zealand Board (the Board). The Board and its standing committees have varied responsibilities for directly and indirectly governing climate-related risks. These responsibilities include overseeing our climate-related risks and opportunities, our strategic response to them and the frameworks that support this work (see Figure 1). In particular, the Board is involved in an annual review of our Enterprise Risk Profile (ERP), which has included a reference to climate change for many years. The Board and Board Risk Committee also receive a Chief Risk Officer (CRO) report at each quarterly meeting which covers all elements of the Risk Management Programme, including climate change.

The IAG New Zealand Board Charter includes specific reference to the Board's responsibilities around sustainability and ESG issues. During FY23, the Board participated in two board education sessions relating to climate change. The first covered broader ESG considerations including climate change, and the second was specific to the physical and transition risks and opportunities facing our business and our approach to disclosure.

Management responsibility

The IAG New Zealand Board Charter delegates management of climate-related risks to the NZ CEO. Given the importance of climate change to our business, the New Zealand Leadership Team (NZLT), both collectively and as individuals, is frequently engaged in specific discussions on climate-related issues and is involved in annual reviews of the Enterprise Risk Profile. The NZLT receives updates on climate-related risks and opportunities through six-monthly updates on the IAG New Zealand Sustainability Plan and has been engaged specifically during FY23 on physical and transition risks and opportunities, and scenario analysis.

A Climate Disclosure Steering Committee has been in place since FY22 and meets regularly. It is co-sponsored by the NZ Chief Financial Officer and the Group Executive General Manager (EGM) Safer Communities, with membership including the NZ Chief Risk Officer and the NZ General Counsel.

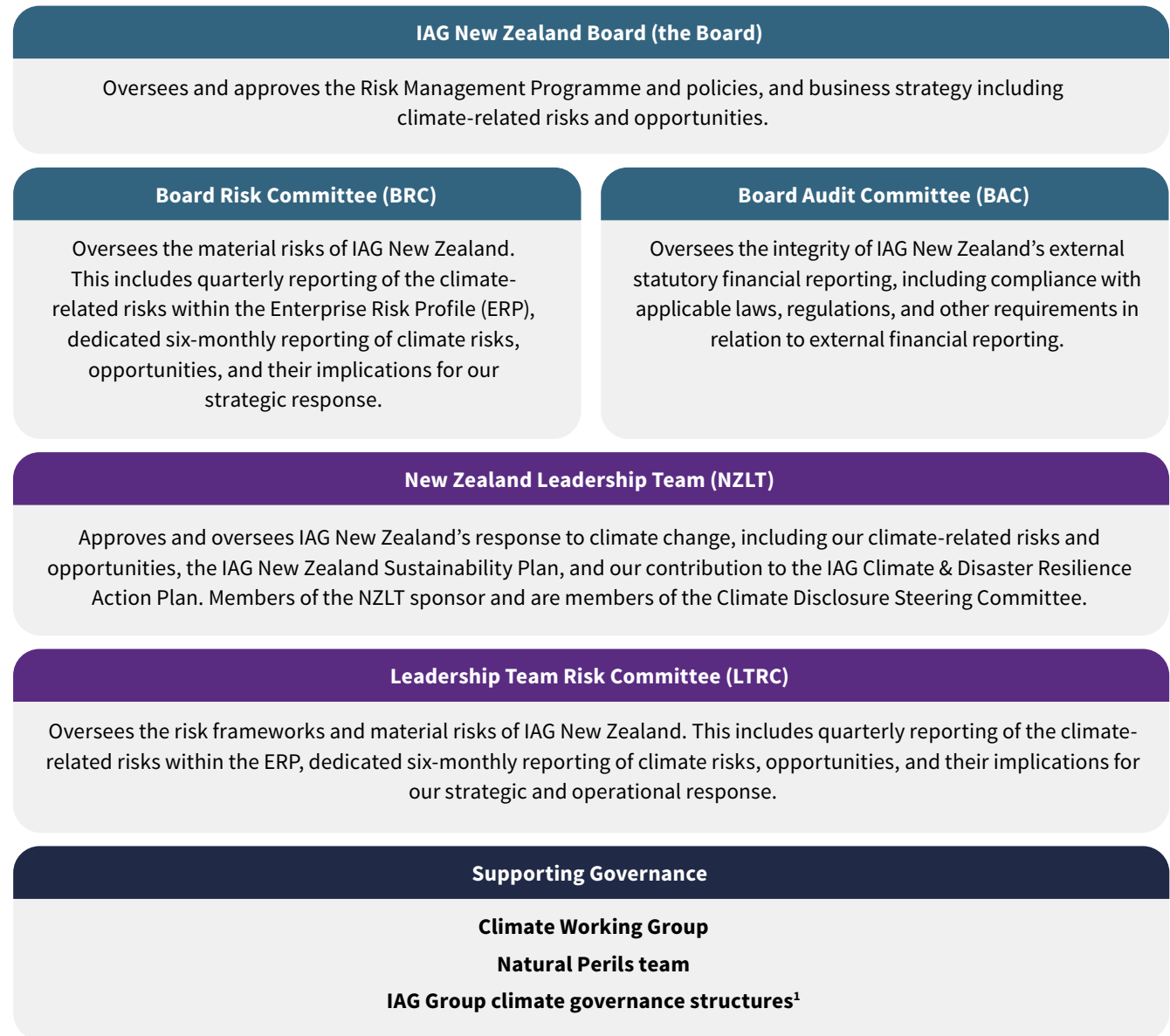
The Climate Working Group (CWG) established in FY22 continues to interpret the latest information on climate-related risks and opportunities; identifies additional work needed to develop our understanding; and identifies the implications for our strategy, budgets, risks and targets. The CWG is made up of senior climate, insurance, strategy, risk, operational and reputation experts from the business. The CWG meets at least quarterly, and has been instrumental in the analysis of IAG New Zealand's transition and physical risks and opportunities, as outlined in the Strategy section below.

Group involvement

The governance structures of our parent entity, Insurance Australia Group, have oversight of climate-related risks and opportunities across the Group, including New Zealand. This includes the Sustainability Steering Committee (previously named the Safer Communities, ESG and Climate Steering Committee) comprising senior leaders from across the Group, including New Zealand. Details on all aspects of Group climate risk governance can be found in IAG Group’s FY23 climate-related disclosure on the [IAG Group website](#).

New Zealand Management and Board continue to have access to internal climate expertise through our weather and flood experts in the IAG Group Natural Perils team. Understanding the impacts of climate events and other natural perils is core to our business as an insurer, hence this team works with IAG’s operating businesses to help them understand how the risks they insure are affected by natural perils such as earthquakes, cyclones and storms. IAG also has a formal relationship with the US-based National Center for Atmospheric Research. During FY23, the Natural Perils team expanded its focus on New Zealand perils and impacts through the appointment of a New Zealand-based resource.

Figure 1. Board and management responsibilities for climate-related risks and opportunities



1. More information available on IAG Group governance in IAG Group’s FY23 climate-related disclosure.

Strategy | Rautaki

As an insurer, climate change is impacting our business in a range of ways, which will evolve over the coming decades. The main way in which we are impacted by both climate events and ongoing climate change is through our customers, and their resulting insurance claims. Climate has therefore been core to our business and to how we support our customers, since our inception.

During FY23, we have evolved our approach to physical risk modelling and have identified and prioritised the key transition risks and opportunities for our business, informed by sector-wide scenarios. These risks have also been assessed as part of our Risk Management Programme, discussed in the Risk Management section below.

Climate scenario analysis

To assist in identifying and assessing our physical and transition risks and opportunities, we used the Insurance Council of New Zealand (ICNZ) Shared Climate Scenarios for the insurance sector. The ICNZ convened industry participants in FY22, including IAG New Zealand representatives, to co-design these scenarios with support from KPMG. The scenarios are considered sufficient to assess current physical and transition risks and opportunities for IAG New Zealand but will likely need to be evolved over time in line with new research and data points.

The scenarios explore three possible futures over a timeframe out to 2050. We have extended these to 2070 for the purposes of physical risk modelling to better illustrate the long-term trends, particularly relating to high-risk peril zones sensitive to sea level rise.

The three scenarios are as follows, and are further articulated in Table 1 – ICNZ Shared Climate Scenarios below:

- 1. Orderly** – an ambitious and co-ordinated transition aligned with a 1.5 degree warming trajectory
- 2. Disorderly** – delayed action, followed by sudden and uncoordinated transformation, landing at <2.0 degrees
- 3. Hot house world** – continuation of current policy settings, leading to uncontrolled warming of 3 degrees+ by 2100.

The different scenario analysis processes followed for physical and transition risks and opportunities are outlined in the sections below. From a governance perspective, the Climate Working Group was involved in these processes, the overall findings were presented to the IAG New Zealand Leadership Team, and they informed the NZ Board education session on physical and transition risks and opportunities.

Table 1: ICNZ Shared Climate Scenarios

	Orderly	Disorderly	Hothouse
Network for Greening the Financial System (NGFS) Scenario	Net Zero 2050 (1.6°C)	Delayed transition (1.8°C)	Current policy reference (3+°C)
Shared Socio-economic Pathways (SSP)*	SSP1	SSP2	SSP5
Adjusted Shared Policy Assumptions New Zealand (SPANZ)	100% Smart	Kicking, Screaming	Homo Economicus
Representative Concentration Pathway (RCP)	RCP2.6 (0.3°C to 1.6°C)	RCP4.5 (0.7°C to 3.3°C)	RCP6.0 (1.2°C to 4.3°C)

* Note: SSP3-7.0 was used in lieu of SSP5-6.0 due to data availability

The physical risks facing our insurance portfolio

Severe weather events are projected to increase in frequency and severity because of a changing climate over the coming decades. The North Island floods and ex-Tropical Cyclone Gabrielle in January 2023 demonstrated the potential for extreme flood and storm impacts on communities – the scale of these events caused IAG New Zealand to revisit key parameters within our peril modelling. These parameter changes alongside the increase in global reinsurance costs continue to impact IAG New Zealand’s financial forecasting and ultimately the cost of general insurance for our customers. These two major events highlight that climate change is likely to be experienced as a series of shocks and step changes, rather than a smooth shift.

Current impacts of climate change on our business during FY23

Global atmospheric temperatures are now around 1.2°C warmer than the preindustrial era². Climate drivers and weather systems impacting our communities are already influenced by significant and accelerating human-caused climate change. Over the last 12 months, while the number of weather-related events was comparable to the same period last year, the two intense storm events mentioned above resulted in the costliest weather-related events for the New Zealand industry to date.

The dominant climate drivers in FY23 included La Niña, negative Indian Ocean Dipole (IOD), and a frequently positive Southern Annular Mode (SAM). Combined with a marine heatwave, these conditions brought an abnormally warm and moist north-easterly flow to New Zealand. Consequently, areas exposed to the northeast (including Auckland, Northland, Bay of Plenty, Hawke’s Bay, Taranaki, Gisborne and Nelson) experienced exceptionally wet conditions. Often heavy rainfall occurred over relatively short periods contributing to significant flood events and impacts to our customers.

Although the predominant climate drivers weakened over summer, the sea surface temperatures in the Coral Sea and around New Zealand remained above average. These conditions transported a high quantity of moisture from the tropics toward New Zealand in early 2023, with an ‘atmospheric river’ resulting in the worst flooding event in Auckland’s history, followed by ex-Tropical Cyclone Gabrielle causing record flooding through the Hawkes Bay region. The net cost of weather related events for IAG NZ increased by 126%³ (in AUD\$) when compared to FY22, with 75% of the FY23 cost attributable to the two events discussed in the case study below⁴.

Current impacts on operations and sites

In addition to the increased volume and cost of weather-related claims from customers, we have also experienced some minor impacts on our sites and operations primarily driven by the North Island floods and ex-Tropical Cyclone Gabrielle. Financial impacts on sites and operations included minor flooding and leaks that required repair across some of our North Island facilities in Auckland, Albany, Mt Maunganui and Napier and two fleet vehicles were written off due to flood damage. These impacts were immaterial when compared to wider insurance-related impacts, and as such we have not assessed anticipated impacts to our operations and sites this year, instead keeping our focus on anticipated portfolio/customer impacts.

2. HADCRUT 5.0.1.0 data sourced February 2023 as documented in Morice, C.P., J.J. Kennedy, N.A. Rayner, J.P. Winn, E. Hogan, R.E. Killick, R.J.H. Dunn, T.J. Osborn, P.D. Jones and I.R. Simpson (2020) An updated assessment of near-surface temperature change from 1850: the HadCRUT5 dataset. *Journal of Geophysical Research (Atmospheres)* doi:10.1029/2019JD032361.

3. As reported in the FY23 investor report.

4. More information about the impact of weather-related events on our business and customers can be found in our Wild Weather Trackers available here: <https://www.iag.co.nz/may-2023-weather-tracker>.



CASE STUDY



Hawkes Bay, February 2023.
Photo: NZME

North Island floods & ex-Tropical Cyclone Gabrielle

On Friday, 27 January 2023, an estimated 240 millimetres of rain fell on Auckland in just one afternoon. The volume, equivalent to an entire summer's worth of rain, led to a severe flash flood across regions of the upper North Island, with Auckland and Northland particularly impacted.

Just ten days later, ex-Tropical Cyclone Gabrielle passed through the North Island and the top of the South Island. During three days of extreme weather, New Zealand was hit with 300-400 millimetres of rainfall or more in some places and wind gusts of up to 130-140 kilometres per hour, causing considerable damage and leaving many people homeless. The social impact has been significant, taking a toll on mental health and pushing more people into vulnerability and financial hardship.

As New Zealand's largest general insurer, the scale of these back-to-back events had an immediate and significant impact on both our customers and our day-to-day business operations. This included unprecedented demand on our front-line claims staff, as well as financial and modelling impacts (as discussed in the 'Physical risk modelling' section below).

Throughout this time, we remained focused on our commitment to paying claims for our customers while also supporting our people, many of whom were personally impacted. We recruited an additional 500 contractors from both Australia and New Zealand, created a stand-alone team to help manage claims for both events, established community hubs and mobile teams in affected areas, and activated our 'All Hands on Deck' programme, where people from across our business can be called on to help support a major event by lodging claims. We're moving at pace to work through each customer's individual situation and exploring all possibilities to help.

Anticipated physical impacts and risks to our portfolio and customers

As climate change increases the frequency and severity of extreme weather events, the impacts of those events on our customers will likely increase without commensurate risk reduction initiatives. The potential physical changes we expect to see as New Zealand's climate changes are summarised in Table 2 – Anticipated weather event impacts below.

Physical risk modelling








Through annual modelling using scenario analysis, the anticipated weather impacts outlined above are applied as overlays to our perils risk modelling. This allows us to understand potential impacts to pricing, claims, reinsurance, capital, and financial metrics.

Our FY23 modelling of physical risks has been updated to incorporate emerging scientific findings, coupled with revised baseline (current climate) physical risk modelling derived from the recent flood and cyclone events across the North Island. The modelling approach is based on historical claims data, adjusted for inflation and changes to the portfolio, to reflect the estimated impact of climate change on IAG New Zealand's portfolio in today's dollars.

Impacts for each of the ICNZ Shared Climate Scenarios and timeframes outlined above were estimated by overlaying climate adjustments on our existing catastrophe modelling framework. Likely future-climate changes to the regional frequency and severity of each category of extreme weather systems were estimated based on scientific literature review and guidance from our Natural Perils team.

While there is broad uncertainty in the nature, timing and magnitude of changes to severe weather impacts in a future climate, this analysis is useful in investigating the sensitivity of IAG New Zealand's portfolio to climate risk and highlighting key trends around risk sensitivity.

Table 2 Anticipated weather event impacts

Rising Temperature	Wildfire	Ex-Tropical Cyclones	East Coast Lows	Hail	Rain and Floods	Sea Level Rise
						
Warming will likely continue and could exceed the Paris Agreement target (global average of 1.5°C above pre-industrial levels) by 2030.	Increasing prevalence of extreme wildfire danger conditions.	Increased frequency and severity of impacts from ex-tropical cyclones (ex-TCs, i.e. tropical cyclones which have undergone extra-tropical transition).	Increased intensity of 'bombing low' systems, which tend to produce extensive wind damage.	Increased frequency of large (but not giant) hail, which tends to cause motor losses.	Increased frequency of intense rainfall from both convective (short-duration, localised) and synoptic-scale (long-duration, regional) processes, leading to increased riverine flooding, flash flooding and general storm damage.	Accelerating sea level rise, resulting in increasingly frequent coastal inundation, exacerbated coastal impacts of severe weather systems including ex-TCs and bombing lows, and increased severity of flooding in tidally-influenced river floodplains.

Limitations and improvements to our modelling approach

The modelling approach is limited by the lack of region-specific, high-quality scientific literature addressing future-climate damaging severe weather events in New Zealand, the statistical nature and reliance on historical data of our core catastrophe modelling, and uncertainty about the resilience of building stock under future land planning regulations, building codes and risk reduction measures. Our adopted approach of adjusting event frequencies in our non-earthquake peril model does not capture some of the more complex future-climate severe weather trends. These factors would generally act to further increase risk, above and beyond the modelled scenarios. Trends not currently captured by our modelling approach include:

- Potential for a step-change in coastal hazards, driven by sea level rise approaching the threshold levels around which our coastal communities have been designed.
- Changes to the impacts from ex-tropical cyclones, which are poorly represented in historical datasets.
- Changes to the physical size, longevity and intensity of severe convective storms.
- Emergence of wildfire risk in New Zealand, which is not strongly represented in historical claims.
- Potential non-linear responses to compounding wind and rain damage.
- Increased liquefaction risk driven by rising groundwater levels impacted by sea level rise in coastal areas.
- Increased tsunami risk driven by rising sea levels.



In the year since our FY22 climate-related disclosure, IAG New Zealand has experienced two large peril losses – the North Island floods and ex-Tropical Cyclone Gabrielle. These events, coupled with strong inflation and higher than average background peril losses, have prompted an adjustment to the baseline (i.e. current climate) loss model to incorporate larger loss events, and reflect the strong recent growth in sum insured (which is unrelated to recent peril events).

Financial impacts

Our scenario modelling for physical risks can be summarised through many financial metrics. The most direct measure is Annual Average Loss (AAL) for non-earthquake perils, which is used to inform IAG Group peril loss allowances, set budgets, price customer policies etc.⁵ Other measures considered include peril loss-exceedance curves (e.g. to understand likely impacts to reinsurance structures), Dynamic Financial Analysis (DFA) outputs (e.g. to understand potential impacts to the Group capital position and profitability outcomes) and Realistic Disaster Scenario (RDS) outcomes (e.g. to understand model sensitivity to key assumptions).

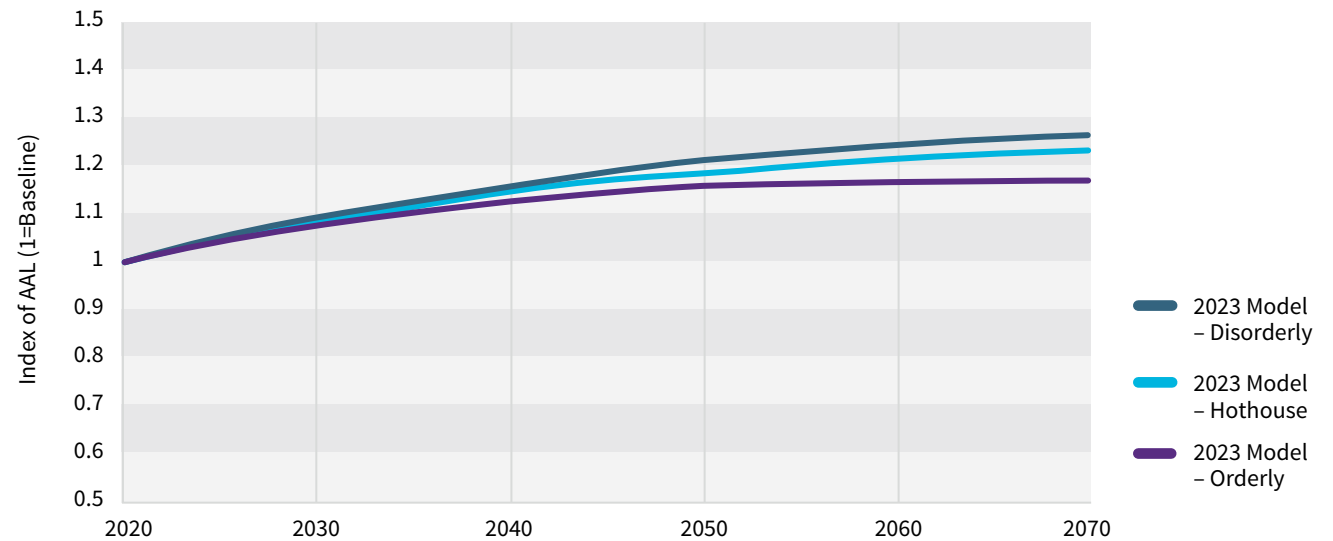
The two extreme weather events experienced so far in 2023 are the two most costly New Zealand weather events on record for IAG New Zealand.

Under the three ICNZ scenarios, we might now expect an increase in our weather-related peril AAL in the order of between 15% to 21% by 2050, in FY23 dollars.

We consider the modelled rate and magnitude of peril risk increase to be broadly manageable across our portfolio through regular pricing and underwriting reviews, and through our reinsurance and capital management activities. The modelled trajectory of weather-related peril AAL across the range of modelled timeframes and climate scenarios is shown in Chart 3 above.

All modelled numbers above are based on illustrative scenarios that are inherently uncertain and should therefore not be read as financial forecasts. Actual losses in any given year will vary with the number and size of the climate events (storms, floods, etc) that occur, and climate-related trends may be difficult to observe due to the inherent randomness of weather events. Depending on the size of an individual event, some of the losses may be ceded to our reinsurers.

Chart 3 Potential impacts on weather-related peril Annual Average Loss



5. Our primary technical measure of the physical impacts of climate-related events on our insurance portfolios is the expected claims costs over a one-year period or Annual Average Loss (AAL).

Other physical risk impacts

Relatively moderate changes and rates-of-change to portfolio-level AALs can mask more extreme shifts in risk at the property and community level. This was evident for our customers and communities impacted by the North Island floods and ex-Tropical Cyclone Gabrielle in early 2023.

While most of the customers we insure will see only a moderate increase in risk, more sizable increases in risk will be experienced by smaller pockets of customers and their communities in areas subject to acute risk increases. This is particularly evident in floodplains at risk from extreme rainfall or subject to sea level rise, and in areas of emerging risk such as the bushland-urban interface, which is likely to become increasingly exposed to wildfire. While these localised sensitivities are likely to have relatively little impact on our financial performance at a portfolio level, they can translate into pricing and underwriting changes with the potential to cause insurance affordability stresses for customers and a resulting increase to the likelihood of associated reputational and regulatory risks for IAG New Zealand.

In addition to financial impacts from peril events, physical impacts of climate change may lead to or exacerbate other transitional and financial risks. This demonstrates the importance of considering physical and transition risks and opportunities holistically – as we have begun to do through our Climate Working Group scenario analysis and our risk management assessments.





CASE STUDY



Hawkes Bay, February 2023.
Photo: NZME

Reducing flood risk

The devastating impacts that flooding has on individual and community wellbeing has become all too apparent over the past few years. This is evident from this year's North Island floods and ex-Tropical Cyclone Gabrielle and other recent flood events in Nelson, Tasman, Marlborough, Westport and Tairāwhiti. IAG New Zealand recognises that New Zealand's focus on response and recovery must expand to place much more emphasis on prevention and risk reduction. We need to address the underlying risk if we are to keep New Zealanders safe from the impacts of flooding, reduce the financial costs, and enable them and their communities to prosper.

Our IAG New Zealand CEO shared a three-step approach to addressing flood risk with government in August 2022. The three steps proposed were:

1.

A joint effort between government and industry to create a common understanding of which flood prone locations are most in need of support to reduce the risk they face.

2.

Implementing new rules to immediately cease development in flood-prone locations and stop the problem of flooding getting worse.

3.

Carrying out a national programme of infrastructure investment to improve flood defences in our most at-risk communities.

We believe these steps will lead to a sensible and targeted reduction of flood risk for the communities that most need it, increasing resilience and helping to keep insurance affordable and available for all New Zealanders.

The North Island floods and ex-Tropical Cyclone Gabrielle have prompted greater government focus on these issues, which IAG New Zealand is contributing to through our CEO chairing the insurance sub-group of the Cyclone Recovery Taskforce, and through direct engagement with government Ministers. We look forward to collaborating further with government, customers, and communities to help ensure New Zealand is increasingly resilient to flood risk.

The transition risks facing our insurance portfolio

Transitioning to a low-carbon, climate resilient future requires IAG New Zealand to consider new transition risks and opportunities as part of our strategy and risk management framework.

Approach to identifying and measuring transition risks and opportunities

We have undertaken analysis of the potential transition risks and opportunities facing IAG New Zealand. This analysis provides us insight and understanding of the direct and indirect impacts these could have on our operating environment, customers, the assets we insure, and our organisation.

Starting with a long list of over 70 potential risks and opportunities, we worked through a prioritisation exercise considering the size of impact on the IAG New Zealand business model. Table 3 below highlights some of the major risks identified with a qualitative view of the potential impact. Using the ICNZ shared insurance sector scenarios, we analysed the potential impacts of these risks and opportunities across the different future outlooks and timeframes included in the scenarios.

IAG New Zealand will continue to refine the classification of our transition risks and opportunities as we do further analysis in FY24 and develop a quantitative analysis of the potential financial impacts to the business. This includes embedding transition risk in our risk management framework. More can be read about our approach to this in the Risk Management section of this disclosure.

Table 3 Transition risks

Key transition risks	Description	Potential Impact
Cost and availability of reinsurance	Higher cost of reinsurance to account for higher losses from climate-related events, both locally and globally.	Higher reinsurance costs and greater retention of risk by IAG which could result in higher earnings volatility – and this trend is likely to continue.
Size and nature of government intervention in flood insurance market	A reduction in the uptake of insurance due to changes in the pricing and underwriting of climate-related hazards could prompt intervention.	Intervention could, if inadequately designed, have a range of impacts on IAG and our customers.
Transport mode shift	Changes in consumer behaviour away from private motor vehicle usage to reduce emissions and support climate change action, enabled by government policy (e.g., public transport infrastructure, denser living environments).	IAG has a large motor vehicle insurance portfolio which could be negatively impacted.
Higher claims and supply chain costs	Climate change events will disrupt global supply chains, as COVID-19 has recently done. Leads to delays and can result in high inflation on affected supply items. The supply chain cost base may also be impacted by the future use of carbon credits to offset supply chain emissions.	IAG New Zealand is reliant on global supply chains (e.g., vehicle parts) and a smaller local market (e.g., building supplies) to resolve customer claims. Depending on the future evolution of carbon offset programmes and the potential for rising prices as demand grows this could result in higher costs.

We have also identified a range of key opportunities which we will be exploring and developing further during FY24.

Transition planning

Taking action on climate change and disaster resilience goes to the heart of IAG New Zealand's purpose – to make your world a safer place. The importance of this has been demonstrated clearly this year through the major weather events that New Zealanders have experienced.

Today, we have the Group-wide Climate & Disaster Resilience Action Plan (Action Plan). Our 3-year Action Plan responds to material short, medium, and long-term risks and opportunities across three focus areas: Rethinking Risk, Transforming the System, and Driving to Zero. Each focus area includes commitments and supporting goals that are driving positive outcomes for IAG New Zealand and our value chain. The full Action Plan can be found at www.iag.com.au.

In FY23, to support our Driving to Zero focus area, we published our Net Zero Roadmap including a transition plan to support our net zero commitments. Progress against our climate commitments has been detailed in our FY23 Climate Action Plan Scorecard, which is an appendix to the IAG Group FY23 climate-related disclosure which can be found on the [IAG Group website](http://www.iag.com.au).

IAG New Zealand's input into the Action Plan is delivered through the IAG New Zealand Sustainability Plan, which was refreshed during FY23. This plan includes both New Zealand-specific and Group-wide initiatives that will improve how we identify, assess, and manage climate risks and opportunities.

Managing the physical impacts of climate risk is at the core of our existing IAG New Zealand business. Through our scenario analysis work on the physical and transition risks and opportunities, we can ensure that our IAG New Zealand strategy sufficiently addresses the changing nature of climate risk, and the impacts on our operating environment (customers, economy, and regulatory environment etc.).



Risk Management | Te Whakahaerenga Tūraru

At IAG we are committed to effectively managing risks. We recognise that the physical and transition risks could manifest at many points across our value chain. ‘Managing Risk’ is one of our strategic pillars and an integral part of our business. To complement the work described in the Strategy section above, we are also working to better identify, understand, and manage risks relating to climate change. This includes working on how we improve our existing risk management frameworks to address these risks. This approach is detailed below.

Risk Management Programme

IAG New Zealand has an embedded Risk Management Programme, comprising frameworks, policies, standards, systems, processes and structures. The Programme applies across the entire IAG New Zealand value chain, including all subsidiaries, and is integrated within the business. It complies with the risk management requirements we must meet under the Insurance Prudential Supervision Act 2010 (IPSA).

The IAG New Zealand Risk Management Programme is designed to:

1.

Ensure IAG New Zealand’s people understand how to manage risk

2.

Assist IAG New Zealand in delivering on its strategy and meeting regulatory and compliance obligations, and

3.

Make IAG New Zealand a stronger and more resilient company which enables it to be there for customers when they are most in need.

Identification of risks

All risks facing the business, including climate-related risks, are identified using both a top-down and a bottom-up approach.

Our Enterprise Risk Profile (ERP) identifies the top strategic and emerging risks the business is facing. This ERP is considered regularly and formally reviewed annually with input from the New Zealand Leadership Team (NZLT) and the Board, as well as engagement of external parties to ensure all relevant and emerging risks are considered. Climate change has featured in the ERP since 2012 and has developed over the years to reflect the different impacts that physical and transition risks may have on the business.

Each business unit has its own risk profile, reflecting key risks that could most threaten its individual business objectives. Specific physical and transition risks arising from climate change are starting to appear in business unit risk profiles, as the business units start taking more ownership of climate change risks and consider what opportunities there are to mitigate those risks.

Assessment of risks

Inherent likelihood and severity of climate-related risks have been rated for each identified physical and transition risk. This assessment has been based on the common methodology of a Risk Impact Matrix and Risk Heat Map to ensure consistency throughout the business and to assist in risk prioritisation. We use capital modelling, reinsurance catastrophe modelling, actuarial loss reserving and technical pricing models to assist with the assessment of risks to the business.

For the climate-related physical and transition risks, we have supplemented these processes with specialist input from functional experts, including sustainability, natural perils, finance, strategy, corporate affairs, risk management and underwriting.

Management of risks

IAG New Zealand's Risk Appetite Statement (RAS) governs the management of all risks, including climate change risks, at both an enterprise and business unit level.

The RAS outlines the level of risk that IAG New Zealand is prepared to take in pursuit of its objectives. It ensures that when IAG New Zealand considers how much risk the company is willing to take, we can still maintain our resilience, operate in accordance with our business plan, comply with our legal and regulatory obligations and continue to meet our stakeholders' expectations. The management of the Enterprise Risk Profile and the individual business unit risk profiles are then all monitored to ensure we are constantly operating within the pre-set parameters of the RAS.

The day-to-day management and monitoring of the physical and transition risks arising from climate change occurs in accordance with IAG New Zealand's Risk Management Programme, and in line with our three lines of defence operating model.

Line 1

is the business units who own the risks arising from business activities.

Line 2

is the risk management function who oversees and gives assurance over how Line 1 is managing the risk and challenges and advises as needed.

Line 3

is Internal Audit who provides independent assurance over the Line 1 and Line 2 control effectiveness.



Nelson, August 2022.
Photo: NZME

Metrics & Targets | Ngahuru & Whāinga

Our metrics used to assess climate-related risks

We have a range of metrics and targets used to measure and manage climate-related risks. These primarily relate to:

- GHG emissions
- Natural hazard risk
- Underwriting exposure.

In FY23, we developed an approach to better link Executive performance to ESG outcomes, with the intent being to include a 5% sustainability metric in our FY24 Group and New Zealand Balanced Scorecards, focused on emissions reduction activity.

We are working towards providing more detail on measuring physical and transition risks and opportunities (noting that our Strategy section covers these at a qualitative level this year), our scope 3 emissions baseline, and an updated internal price on carbon. Selected metrics outlined in this section are included in the scope of third-party limited assurance provided by KPMG. For further details see the limited assurance report on the [IAG Group website](#).

Our emissions reduction targets

Recognising the need for a transition plan to deliver on our net zero commitments in our Action Plan, we published our **Net Zero Roadmap in FY23**. This roadmap outlines IAG Group's approach – including IAG New Zealand – to meet our 2050 net zero emissions target by setting interim targets for priority scope 3 emissions sources by FY25. We are working towards setting interim targets for our insurance-associated emissions. Our targets and ambitions have been developed against our current business model. We will continue to revisit and update our roadmap as our business evolves.

During FY23 we have continued to work towards the following emissions reduction targets and ambitions:

Net zero

IAG has committed to net zero emissions by 2050, with an ambition for 50% emissions reduction by 2030.

Science-based target (aligned with 1.5°C of warming)

Our latest scope 1 and 2 target, agreed in 2022, is a 37.8% reduction by 2030 using a baseline year of FY21.



Our FY23 emissions

We have measured and had our carbon footprint assured since 2004. We have fully offset our measured emissions since 2012. A full breakdown of IAG Group and New Zealand emissions by category is available in IAG’s FY23 ESG Data Summary on the [IAG Group website](#). IAG New Zealand emissions are quantified using New Zealand-specific emission factors.

Currently, we include the following scope 3 sources within the scope of our emissions reporting:

	air travel		car hire
	waste		taxi travel
	paper		transmission & distribution losses*
	staff working from home		

* This includes transmission and distribution losses from electricity, natural gas, stationary LPG, and company vehicles fuel sources.

During FY23 we also began work on initial estimation of the following scope 3 sources:

	supply chain		employee commuting emissions
	insurance-associated emissions		

Table 4 – FY23 IAG New Zealand Emissions⁶

	FY23	FY22	FY21	FY20	FY19
Scope 1	1,327	935	1,037	1,030	1,236
Scope 2	485	347	445	537	702
Scope 3	2,138	1,458	558	3,175	4,036
Total	3,950*	2,740	2,040	4,743	5,975
Intensity / FTE	1.1	0.8	0.6	1.5	2.0

* Note: All the numbers expressed in the table above are tonnes CO2e.

GHG emissions intensity has been calculated based on FTE, and this has been included in the table above.

Detailed information on IAG New Zealand’s approach to GHG metrics and targets, reporting boundaries, and methodology can be found in IAG’s FY23 ESG Data Summary on the [IAG Group website](#). At a high level, we follow the guidance of the Greenhouse Gas Protocol, utilise emissions factors from the New Zealand Ministry for the Environment, and work to continuously improve our reporting approach.

Our emissions reduction performance and activity

We note that our emissions for FY23 have significantly increased. This is due to two main factors:

- An ongoing loosening of COVID-19 restrictions allowing for increased domestic and international travel, including vehicle use, and more ‘in office’ activity
- An increase in emissions as we continue to expand our Repairhub network.

Repairhub is IAG’s vertically integrated network of motor vehicle repair shops being introduced across highly populated areas of New Zealand. This innovative motor repair model includes a wide array of sustainability initiatives including a plastic repair division (reducing the amount of plastic items like bumpers going to landfill), energy efficient paint booths, parts recycling and rainwater harvesting technology.

6. Scope 1: direct emissions from owned and controlled sources, e.g. fuel usage from IAG vehicles. Scope 2: indirect emissions from the generation of purchased energy. We use a location-based approach, which reflects the average emissions intensity of the grids on which our energy consumption occurs. Scope 3: indirect emissions that occur upstream and downstream of our business operations.

The following scope 1 and 2 emissions reduction initiatives continue to be a focus for us to deliver on our science-based target:

Transitioning our vehicle fleet to electric and hybrid vehicles

Increased the number of **hybrids** in our IAG corporate vehicle fleet by 46 (now totalling 77) this financial year and the number of **electric vehicles** by 8 (now totalling 20), with 38% of our IAG corporate vehicle fleet now being EV or hybrid.



Our **EV Early Adopter** programme continues to provide us with learnings and insights which we have shared with customers in our **NZI EV Fleet Guide** to help encourage their own transition. Our IAG EV drivers are seeing an average reduction in their fuel emissions of around **86%** compared to when they drove a petrol vehicle.

We have seen an **increase** in total vehicle emissions this year due to the increase in kilometres travelled (driven by the loosening of COVID-19 restrictions, and in response to severe weather events).

Reducing emissions from Repairhub

Repairhubs continue to be state of the art and **energy efficient**. We are constantly identifying opportunities to reduce their emissions profile further.



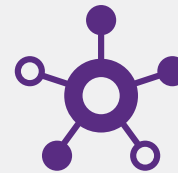
Renewable electricity generation is a key area of focus for us, and we are investigating the use of **solar** panel installations at certain Repairhub sites.

Work is underway to improve the emissions profile of the Repairhub **courtesy car fleet**, with hybrids already making up around 20% of this fleet. We offered our first EV courtesy car to customers during FY23. This allows customers to experience driving an EV while lowering emissions.

We have been preparing to report on material sources of scope 3 emissions. These have not previously been reported due to methodology and data limitations. The scope 3 sources include:

Supply Chain

We engaged Toitū Enviromark to develop a **supply chain emissions baseline** for IAG.



This covered our **claims supply** chain as well as **corporate procurement** and identified initial priority areas for further measurement and decarbonisation.

Using publicly available environmentally-extended input-output (EEIO) emissions factors, **Toitū estimated an emissions baseline** for our New Zealand supply chain emissions.

Insurance-associated emissions

Guided by standards being developed by the Partnership for Carbon Accounting Financials (PCAF), we have begun a **project to baseline the emissions associated with our underwriting portfolios**, also known as insurance-associated emissions.



As part of our Net Zero Roadmap commitments, we are developing a **customer engagement target** for our insurance-associated emissions. This target allows us to bring our customers along on the journey as our underwriting approach evolves and we work towards setting our scope 3 emissions reduction targets.

Understanding the climate impact of our underwriting portfolio and supply chain is a new area of focus for the insurance industry. This comes with inherent challenges around data completeness and accuracy, internal resource and capability, and the development of methodologies and best practice. We know that achieving our net zero target will also require changes outside of our operational control, including technological uplift within industry, and socio-economic changes to help facilitate a just transition.

Our targets to manage climate-related risks and opportunities

In addition to the emissions targets outlined above, we also have the following climate-related targets:

Natural hazard risk target

1 million Australians and New Zealanders to have taken action to reduce their risk from natural hazards by 2025).



Progress

To date, IAG New Zealand has prompted over **23,000** New Zealanders to take action⁷. This includes awareness campaigns including our Wild Weather Tracker, Climate Change Poll, and NZI EV Fleet Guide.



Underwriting portfolio target

IAG committed to cease underwriting entities predominantly in the business of extracting fossil fuels and power generation from fossil fuels, by the end of FY23.

Our key parameters for defining business underwriting exposure to fossil fuels are:

- Fossil fuel extraction – including the mining of any hydrocarbon fuels, where extraction makes up over 30% of all the entity's activities.
- Power generation using fossil fuels – where thermal coal makes up over 30% of the electricity generated.

Application of these parameters do not include:

- Legacy portfolios in run-off for businesses that IAG has divested where the liability for future claims against some of the policies will exist until expiry of the policy.
- Supporting businesses that provide, supply, transport or provide distribution services to these entities.
- Small and medium size enterprises with turnover less than \$100m, where the primary industry classification of the business is not related to mining or power generation but may have greater than 30% turnover arising through engagement in these industries.



Progress

Within the parameters of our commitment, in the New Zealand business we have less than \$0.5 million in gross written premium (GWP) in outstanding exposure to entities predominantly in the business of extracting fossil fuels and power generation from fossil fuels as of 30 June 2023. While our commitment is to have ceased underwriting these entities by FY23, our exposure remains below 0.01% of total GWP. We are in the process of evolving our commitment to continue working towards phasing out our fossil fuel exposure, while supporting customers whose decarbonisation efforts are consistent with a just transition to a net-zero carbon emissions future.

More information on these targets, and our Group investment portfolio targets and metrics, can be found in IAG Group's FY23 climate-related disclosure and in IAG's FY23 ESG Data Summary which can both be found on the [IAG Group website](#).

7. This commitment is measured through actions that encourage either risk or emissions reduction. An action is counted when an individual takes a step to understand their risk or emissions, or understand options to reduce their risk or emissions, or implement or maintain an initiative to reduce their risk or emissions. This measure equates actions to individuals, as those in high risk areas will need to take multiple actions to reduce their risks from natural hazards. An example of a New Zealand action counted to date was number of downloads of our [Emergency Kit Checklist](#), included within our Wild Weather Tracker.

