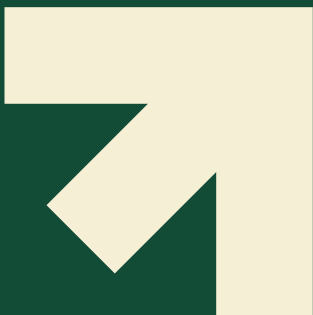


Task Force on Climate-related Financial Disclosures Report 2022





About this report

This report represents an important step in our climate action journey. In line with the recommended disclosures provided by the Task Force on Climate-related Financial Disclosures (TCFD), it is structured around four thematic areas: Governance, Strategy, Risk Management, Metrics and Targets.

This report covers the nib Group and its entities (nib) during financial year 2022 (FY22) and should be read alongside our Annual Report which can be found on our [website](#).



Highlights

2040

science-based net zero commitment

supported by our emission reduction roadmap

100%

carbon neutral business

using high-quality Australian-based carbon credits

100%

renewable energy procurement

at nib-controlled locations

100%¹

compliance with our [Responsible Investment Policy](#)

1. Excludes investments managed by Macquarie on behalf of our charitable arm, nib foundation, which are subject to nib foundation's Investment Policy Statement.



A message from the Chairman and Managing Director & Chief Executive Officer

Very clear to us today is the significant role of social and environmental factors in the pursuit of our purpose of *your better health and wellbeing*. In respect of the latter, we are invested in climate and the sustainability of our natural environments.

While nib is not a large emissions contributor, we have a role to play and are determined to make a difference. Our actions to date include:

- becoming a carbon neutral business this year;
- procuring 100% renewable energy at nib-controlled locations since FY21;
- implementing a [Responsible Investment Policy](#) which specifically considers climate change risk; and
- conducting our inaugural climate change scenario analysis.

Importantly, we have also developed a roadmap for achieving net zero by 2040. This includes science-based targets (SBTs), submitted to the Science-Based Targets Initiative for validation¹, and a set of practical actions we will take to reach our near-term and long-term emission reduction goals.

We are proud to present this inaugural TCFD Report (Report) which outlines nib's approach to managing and addressing climate change risk and opportunity. This Report describes key risks and opportunities we have identified to date, how we plan to manage these, the governance structures we have in place and performance targets.

As we mature in our climate risk management and reporting, we will continue to engage with climate experts as well as a broad range of stakeholders.

Climate change matters to nib.

David Gordon
Chairman

Mark Fitzgibbon
Managing Director &
Chief Executive Officer

1. Near-term targets only. We will submit our net zero target to the SBTi for validation once the Net Zero Standard for financial institutions is finalised in 2023.

Governance



nib Board

The nib holdings limited Board holds ultimate responsibility for the oversight and operation of our sustainability strategy. The Board are supported by the Chief Risk Officer and the Management Sustainability Committee.



Risk and reputation committee



The Risk and Reputation Committee assists and makes recommendations to the Board on:

- the appropriateness of risk policy, risk management strategy and risk management framework;
- the effectiveness of nib's risk management framework;
- identification and assessment of material risks (including responsibility for climate-related issues);
- nib's systems and procedures for compliance with applicable legal and regulatory requirements; and
- sustainability initiatives and the social, environmental and ethical impacts of nib's business practices on nib stakeholders including, but not limited to, members, employees and community recommending standards for social, environmental and ethical practices.



Management sustainability committee

nib's Management Sustainability Committee oversees the implementation and operational effectiveness of our Sustainability Principles and initiatives.

This includes helping implement change across our business, enhancing our sustainability monitoring and exploring opportunities for improvement.

The Committee is chaired by the Chief Risk Officer and includes members from the Executive team and other key leaders from across the nib Group.



Group executive – legal and chief risk officer

The Group Executive Legal and Chief Risk Officer is responsible for managing the Legal, Risk, Compliance and Governance functions across the nib Group.

This function also includes responsibility for community and sustainability including the management and delivery of our sustainability activities.



Business units

The initiatives and targets of each of our sustainability pillars are supported by various business across the nib Group. These teams develop and deliver our sustainability activities on a day to day basis ensuring we meet our ESG commitments. The Business Units report to the Board and Management Sustainability Committee bi-monthly and monitor the market for emerging issues that should be escalated.

- | | | |
|---------------------------|------------------------------|------------------|
| • Clinical | • Cybersecurity | • Risk |
| • Community | • People, Talent & Inclusion | • Sponsorship |
| • Compliance & Governance | • Products | • Sustainability |

Board and Executive oversight and decision-making on climate-related issues

nib's Board and Executives are actively involved in nib's sustainability work. In FY22, our SBTs and emission reduction roadmap were endorsed by our Management Sustainability Committee and approved by the Board.

In addition to this, the Board also has oversight of nib's [Responsible Investment Policy](#) which they review every two years to ensure it remains fit-for-purpose. The Board also monitors our asset managers to ensure they comply with the [Responsible Investment Policy](#).

nib's Sustainability Principles are Board approved, including our *Natural Environment* principle, which acknowledges the quality of the natural environments and its impact on people's health. They also receive at least quarterly updates on all of nib's sustainability efforts.



Strategy

We aim to achieve our purpose of *your better health and wellbeing* through our business strategy, which includes a focus on our environmental, social and governance responsibilities.

nib's Sustainability Principles guide our approach to sustainability strategy, governance, risk management, policy development, decision-making and disclosure. Specifically, our *Natural Environment* principle recognises the quality of the natural environments in which we live are similarly influential on people's health. In addition, the quality of air and water, biodiversity and climate stability are crucial to the health and wellbeing of our stakeholders. As such, we seek to improve our business processes to limit our impact on the environment.

Furthermore, our *Leadership and Governance* principle reinforces that we understand the risks associated with our business operations and the potential consequences for our stakeholders in failing to manage these risks. We also understand how the behaviour of companies like ours can influence others operating in our communities.

In 2019, we conducted our inaugural climate change scenario analysis which assessed the potential impacts of current and future climate-related risks and opportunities on our ongoing financial sustainability and capacity to meet our business strategy. This analysis used two future scenarios and was informed by nib's Scenario Analysis and Stress Testing Procedure.



Description of scenarios:

We considered four potential scenarios: RCP2.6, RCP4.5, RCP6.0 and RCP8.5. Of these, RCP8.5 and RCP2.6 were selected as the most appropriate scenarios to explore climate-related physical and transition risks (respectively) for nib.

Best Case

RCP 2.6 (0.9 – 2.3°C)

A low emissions pathway with strong mitigation efforts. Early participation from all emitters is followed by active removal of atmospheric carbon dioxide. This scenario represents:

- Declining use of fossil fuels
- Low energy intensity and increased energy alternatives
- Slower population growth
- Rapid uptake of technology and strategies to achieve emissions reductions

Worst Case

RCP 8.5 (3.2 – 5.4°C)

A high emissions pathway with minimal effort to reduce emissions. Emissions will continue to increase marked by the continued use of conventional fossil fuel energy to power cities homes and businesses. This scenario represents:

- Heavy reliance on fossil fuels
- High energy intensity
- Increasing population with increased use of land for agriculture
- Low rate of technology development

Risks and opportunities

Our analysis identified several climate-related risks and opportunities for nib and our health and travel insurance products.

Our climate-related risks			
Risk	Description	Timeframe ¹	Potential business impact
Physical risks			
Changing trends with natural disasters <i>Acute</i>	The incidence and severity of natural disasters may increase. Natural disasters often result in trauma, illness, loss of family members, destruction of property and disruption of communities, leading to either temporary or permanent migration. This often results in psychological distress, leading to an increase in mental illness among affected individuals.	Short/ Medium	Natural disasters may impact claims and payouts, and this may impact claims processing and operations. Increasing incidence and severity of natural disasters is likely to increase pressure on discretionary income, which may result in fewer individuals taking out private health insurance or they may opt for the base level of cover or choose not to take up offers such as waivers.
Limitations of current regulatory and pricing mechanisms <i>Acute</i>	Regulatory requirements limit ability to tailor pricing for health insurance products for a region (understanding regional changes from a climate risk perspective).	Short/ Medium	Current regulatory restrictions limit health insurance pricing changes to an annual basis. This represents a direct revenue risk to nib should a natural disaster(s) occur resulting in a higher than expected volume of claims and pricing changes that are unable to account for a potential increase in claiming activity.
Changes to global climate extremes <i>Acute & Chronic</i>	Given the range of geographies and customer demographics, nib is exposed to a range of climate hazards that could impact both its insurance product, and its customers, employees and assets.	Short/ Medium	The impacts of climate change are likely to be felt through short-term impacts of natural disasters, as well as longer-term stresses that are exacerbated by changes to average weather conditions.
Increasing data availability and modelling capabilities <i>Acute</i>	The correlation between claims payout ratio for particularly vulnerable destinations or certain natural disasters is yet to be determined.	Medium/Long	Revenue may be impacted. In terms of exposure of policies, nib does not actively price premiums based on any known climate data.
Climate change driving claims inflation <i>Acute & Chronic</i>	If claims increase (absolute number and/or cost) as a result of natural disasters, there is a potential impact to nib travel insurance underwriting agreements which impact the claims performance of travel insurance providers.	Medium/Long	In the short-term, there is a risk that this inflation may not be adequately covered by premium price increases and product design changes if climate-related risk is not proactively managed. Longer-term, it may cause underwriters to no longer carry underwriting risk in travel insurance because of this claims volatility in certain parts of the world.
Destination selection and travel patterns <i>Acute & Chronic</i>	Changing trends in the tourism sector will be increasingly influenced by the physical risks of climate change, including decision-making around where and when to travel.	Medium/Long	The impact of extreme climate events on destinations is likely to deter visitors and require long-term recovery efforts.
Health and pandemics <i>Chronic</i>	The threat of infectious disease rates may increase and mosquito-borne diseases may increase their range.	Medium ²	This risk is significant for travel insurance. Outbreaks and pandemics not only have medical related claims costs, but also lead to large numbers of claims related to cancellations.

1. Short-term is less than a year. Medium-term is 1-5 years. Long-term is 6-10 years.

2. This risk was identified in 2019 prior to COVID-19. It will be reassessed in our next climate change scenario analysis planned for FY23.



Our climate-related risks (continued)			
Risk	Description	Timeframe ¹	Potential business impact
Transition risks			
Changing trends in healthcare sector <i>Market</i>	Addressing member concerns over a changing climate, many of the impacts of which will not be seen for several years.	Medium/Long	By focusing on short-term market trends, nib risks missing long-term opportunities to support 'life-time members' through new products and services that support healthier lifestyles. Our Payer to Partner strategy in some way mitigates this risk.
Changing trends in travel patterns <i>Market</i>	In light of potential changes and technology upgrades associated with a low carbon economy, global travel may go through a period of stagnation or decline as technology and industry adjusts and the market corrects itself.	Medium/Long	This may impact the number of policies sold for global travel.

Our climate-related opportunities		
Opportunity	Description	Potential business impact
Shift in investment <i>Markets</i>	Incorporate key assessment criteria within the investment process.	This will help to screen socially responsible investments and to better align with nib's Sustainability Principles.
Changing strategies of partner organisations <i>Markets</i>	In a scenario where all organisations proactively respond to climate risk, it is foreseeable that underwriting organisations may require nib to also embed climate considerations in our risk assessment processes and insurance products.	The transition to a low carbon economy presents an opportunity for nib Travel to strengthen partnerships by meaningfully managing transition risks and impacts. A transition to a low carbon economy could reduce the margins of travel insurance products and may result in certain markets not being attractive for underwriters.
Incentivise members outside of current regulatory and pricing mechanisms <i>Products and services</i>	Member appetite for value-add content (e.g. healthy living) is growing.	Targeting members by region with education around climate risks and natural disasters may contribute to a reduction in claims.
Changing preferences of customers <i>Products and services</i>	Member and traveller appetite for socially responsible products and services is growing.	There may be opportunities to offer new products such as those to offset the carbon emissions associated with travel or provide opportunities for travellers to donate to specific projects such as renewable energy project in developing countries.
Policies optimised for climate change <i>Products and services</i>	As natural disasters become more frequent, the propensity for travellers to take out travel insurance may also increase.	There is opportunity for nib to provide a service that increases the resilience of its travellers.
Destination selection and travel patterns <i>Products and services</i>	Potential opportunities may arise linked to short-term increased demand for 'last chance' tourism.	This is likely to be associated with an increase in demand for destinations that may vanish or be irrevocably changed under future climate change.

The resilience of our strategy

In FY22, we reassessed these scenarios and determined they were still relevant to our business. However, given how rapidly standards are evolving, we will conduct our next climate change scenario analysis in FY23 to ensure our strategy remains resilient in a range of distinct scenarios.

We also commit to review and update our path to net zero, including our emission reduction roadmap, annually. This gives us flexibility and opportunity to evolve and accelerate our emission reduction in line with regulation, supplier, government and investment manager appetite, and employee engagement. It also ensures our plans are constantly aligned with the latest scientific projections and forecasts for future outcomes, as a result of climate change.

1. Short-term is less than a year. Medium-term is 1-5 years. Long-term is 6-10 years.

Risk management

How we identify and assess climate-related risks

We conduct regular climate change scenario analysis to identify climate-related risks and opportunities. In addition, each year climate change is considered and assessed for inclusion in nib's Annual Key Enterprise Risk (KER) Review by the nib Board. Due to materiality and the long-range time horizons (versus the strategic plan), climate change risk was not determined to be a stand-alone KER for our business in FY22.

How we manage climate-related risks

nib's [Risk Management Framework \(RMF\)](#) sets out our structured approach for managing nib's material risks. The RMF is a combination of both formal and informal elements including risk management systems, structures, policies, processes and the people operating them.

It's reviewed annually to ensure it continues to be effective and relevant.

To effectively manage risk, we've adopted the Three Lines of Defence model which sets out the roles within the organisation that play a key role in managing risk.

Our approach to managing climate risk also extends to our investments. [nib's Responsible Investment Policy](#) reflects our belief that incorporating environmental, social and governance factors into our decision-making ensure our investments return a strong performance, while aligning with the interests of our communities, society and the natural environment.

As part of our investment decision-making, we consider climate change and the transition to a low carbon economy across the total portfolio. As a result, we do not invest in companies that derive revenue from carbon intensive fossil fuels, specifically thermal coal and tar sands mining.

How we integrate these processes into nib's overall risk management

While climate risk is not a stand-alone KER, we acknowledge the severity and frequency of natural disasters has been accelerated by climate change. As such, the risk of such events is considered within a broader 'Business continuity' operational risk (refer to page 10). This approach is aligned with the TCFD guidance for our industry.

Beyond this, specific climate risks have been integrated into our RMF to ensure appropriate ongoing oversight and management. This includes integrating climate change into business unit risk assessments and establishing a 'bottom-up' risk register.



Metrics and targets

Our business

We became a carbon neutral business in FY22 for the first time and are committed to maintaining our certification into the future. We achieve carbon neutrality through the purchase of high-quality certified Australian carbon credits based on our previous financial year emissions.

Metrics

(tonnes CO ₂ -e) ¹	FY20	FY21	FY22
Total emissions²	9,952	6,917	8,275
Scope			
Scope 1	27	24	1
Scope 2	1,295	419	30
Scope 3	8,630	6,474	8,244
Region			
Australia	8,986	6,158	7,365
New Zealand	824	544	871
Other ³	142	216	39
Intensity			
Employee (FTE) (Scope 1 & 2)	0.878	0.383	0.023
Employee (FTE) (total emissions)	6.613	5.979	6.130
Customer ⁴ ('000) (Scope 1 & 2)	0.818	0.269	0.018
Customer ⁴ ('000) (total emissions)	6.158	4.205	4.825
Revenue (\$m) (Scope 1 & 2)	0.528	0.172	0.011
Revenue (\$m) (total emissions)	3.976	2.685	2.997

The increase in Scope 3 emissions between FY21 and FY22 is due to maturing our data collection processes which provides a more accurate reflection of our emissions as well as an increase in business activities.

Science-based targets

In FY22, we focused our efforts on setting our SBTs and developing an emission reduction roadmap to support our path to net zero. Our science-based absolute emissions reduction targets for our Scopes 1, 2 and 3⁵ emissions align with the Paris Agreement to keep climate change below 2°C and pursue efforts of 1.5°C.

50%

reduction in Scope 1 & 2 emissions by 2030

from a FY21 baseline.

25%

emission reduction in Scope 3⁵ by 2030

from a FY20 baseline⁶.

Net zero

Achieve net zero by 2040

In FY22 we exceeded our near-term target for Scope 1 and 2. Given we are still early in our emission reduction journey, and our business is evolving, our focus now is to maintain and elevate the strategies that enabled us to reduce our Scope 1 and 2 emissions significantly this year. We commit to review our targets regularly to ensure they remain fit-for-purpose.

- nib measures its emissions in accordance with the ISO 14064-1:2018 and the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition) (GHG Protocol). We use the operational control approach and the relevance test adapted from the GHG Protocol to determine the emission boundary for our organisation.
- nib's emissions reporting has expanded from FY20-22 in terms of both emissions categories and reportable locations.
- Other locations include United States of America and United Kingdom.
- Number of persons covered by a health insurance policy.
- Excludes investments.
- FY20 was chosen as the baseline for Scope 3 emissions because it reflected our business activity more accurately than FY21 which was impacted by COVID-19.

Metrics and targets

Our investment portfolio

nib's Board-appointed investment portfolio managers (Mercer in Australia and Nikko AM in New Zealand) and nib foundation-appointed investment portfolio manager (Macquarie) support our approach to responsible investment.

In FY22, 100% of our investments managed by Mercer and Nikko AM complied with nib's Responsible Investment Policy. Furthermore, 100% of our investments managed by Macquarie complied with nib foundation's Investment Policy Statement.

Our investment portfolio managers are also signatories of the United Nations Principles for Responsible Investment.

In collaboration with our investment portfolio managers, we have set a science-based portfolio coverage target for our investments:

25%

portfolio coverage
by 2027.¹

100%

portfolio coverage
by 2040.¹

The co-benefits of our emissions offsets

While our priority is to reduce our emissions to achieve our net zero target, offsetting is still a necessary action we must take as a business at this time. As part of our carbon neutral commitment, we invest in projects that produce high-quality Australian carbon credits.

We actively seek out projects that not only deliver benefits for the environment; but also support local First Nations communities which reflects our commitment to supporting the wellbeing of Aboriginal and Torres Strait Islander peoples, as stated in our [Reconciliation Action Plan](#).

In FY22, we invested in three projects, two of which seek to establish permanent native forests through assisted regeneration while also improving land access and diversifying income streams of the local First Nations communities. The other seeks to reduce emissions through savanna burning while also facilitating the sharing of cultural knowledge, creating meaningful employment opportunities and contributing to economic empowerment for First Nations peoples.



1. Investment types in-scope for setting science-based targets that nib holds are corporate bonds which represent 6% of nib's total investments. All other investments nib holds are investment types out of scope or optional as defined by the Science-Based Targets Initiative.



Emission reduction roadmap

nib is committed to supporting the transition to a net zero future. Our commitment to reach net zero emissions by 2040 is supported by our emission reduction roadmap which outlines the steps we will take to reduce emissions in our operations and influence emissions reduction in our value chain.

Our approach is guided by five principles.

Govern and report: Ensure our policies and processes reflect nib's net zero commitment and support our business to reduce emissions through our operations and investments. Ensure nib's net zero commitment and roadmap are governed at the Executive level. Report on our progress internally and externally annually.

Engage and advocate: Use nib's sphere of influence as an employer, purchaser, supplier, tenant and investor to reduce emissions related to our workplace and value chain. Engage with government and lead by example by playing our part.

Improve data quality: Transition to capture and report of actual emissions data wherever possible. Regularly review nib's scope definitions and boundaries to ensure they are fit-for-purpose.

Reduce emissions: Transition our workspaces and vehicle fleet to renewable energy and electricity to eliminate use of fossil fuels. Reduce our work-related travel.

Reduce waste: Engage in waste management practices, including reducing, reusing and recycling, throughout our value chain.



