

**AXA For Progress Index:
AXA Green Business Program
13 April 2022**



EXECUTIVE SUMMARY

Building on AXA's purpose "Act for human progress by protecting what matters", in 2021 AXA strengthened its Climate and ESG strategy, with a Green Business Program. The Group seeks to minimize its impact on climate change by offering insurance solutions that promote environmentally friendly behavior.

The Green Business program includes P&C insurance coverage and services, which have a **positive impact on the environment** by contributing to at least one of the following four objectives¹: Climate Change **Mitigation**, Climate Change **Adaptation**, **Transition** to a circular economy and / or **Limitation** of biodiversity loss and pollution.

To support our entities in the development of their green business offers, **AXA has built a tailor-made Green Business framework** to assess the extent to which offers may have a positive impact on the environment.

This framework is complemented by the definition of a "Green Premium" target to measure progress, as well as promote product innovation: **AXA commits** to increase the gross written premiums on Green Business solutions (the "Green Premium") to EUR 1.3bn by 2023 (vs EUR 1.1bn in 2020). This target will be achieved through the redesign of existing products and the development of new solutions.

This note is intended to present the Green Business program, the rationale for its creation and the framework and also sets out the assumptions which AXA has made to date on certain offers included in the "Green Premium".

¹ Derived from the 6 environmental objectives of the EU Taxonomy Regulation.

CONTEXT

In 2021, AXA launched its strategic plan *Driving Progress 2023*. As part of the strategic plan, we **accelerated our climate and ESG strategy** and included a dedicated insurance-related commitment in the AXA For Progress Index. The AXA For Progress Index sets out 7 measurable commitments for AXA as an investor, company and insurer. As an insurer, the objective is to turn our insurance business into an enabler for climate transition. Insurers are well equipped to contribute to the understanding of the climate change through their risk management expertise, the vast number of claims data they collect, and the research they can fund to address climate-related risks.

Relation between regulation and AXA's Green Business program

The Green Business program has been developed in line with the new regulatory developments on sustainable finance, notably **the EU Taxonomy Regulation**².

The EU Taxonomy Regulation sets out the criteria for determining whether an economic activity qualifies as environmentally sustainable. It introduces **6 environmental objectives**: 1/ climate change mitigation, 2/ climate change adaptation, 3/ sustainable use and protection of water and marine resources, 4/ transition to a circular economy, 5/ pollution prevention and control, 6/ protection and restoration of biodiversity and ecosystems.

To date, the EU Taxonomy Regulation recognizes the significant contribution non-life insurers have to play in the fight for **climate change adaptation** (environmental objective 2) via the provision of climate-related peril insurance. To capture the various other levers insurers may activate which have a positive impact on the environment, the Green Business program considers the contribution of other lines of business on the other environmental objectives.

GREEN BUSINESS PROGRAM

The Green Business program uses a **definition** of a green offer and the concept of **shades of green, both developed by AXA**, which enable an assessment of the materiality of the environmental benefits of a Green Business offer, and a **tailor-made framework** to support our entities in developing Green Business offers.

Definition

Green Business is a P&C insurance coverage or service ³, that delivers a **positive impact on the environment** by contributing to at least one of the following four objectives⁴:

- **Mitigation** – of the causes of climate change, by reducing Greenhouse gas emissions (examples: low-emission energy infrastructure / vehicles)
- **Adaptation** – to the consequences of climate change (examples: resilient buildings, insurance on NatCat events)
- **Transition** – to a circular economy, to limit Greenhouse gas emissions by extending devices lifetime and thus limiting the use of new raw material (example: second-hand spare parts),

² Regulation (EU) 2020/852 dated June 18, 2020 on the establishment of a framework to facilitate sustainable investment (the "EU Taxonomy Regulation")

³ To be in line with the EU Taxonomy Regulation that only considers non-life insurance solutions.

⁴ Derived from the 6 environmental objectives of the EU Taxonomy Regulation: 1/ climate change mitigation, 2/ climate change adaptation, 3/ sustainable use and protection of water and marine resources, 4/ transition to a circular economy, 5/ pollution prevention and control, 6/ protection and restoration of biodiversity and ecosystems.

- **Limitation** – of biodiversity loss and pollution (examples: pollution prevention, mangrove and coral reef conservation) as they both put pressure on nature, and in turn, have a negative impact on climate change (loss of carbon sinks)

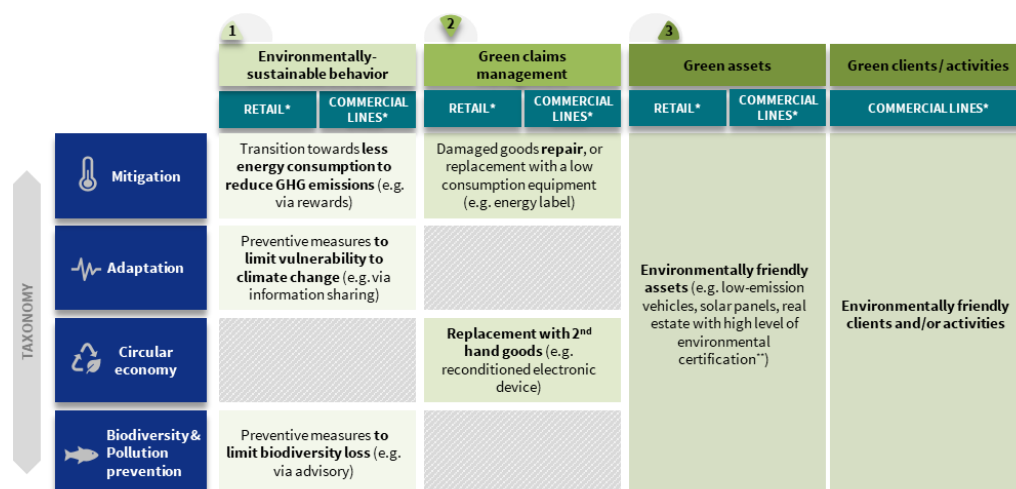
Shades of Green

To complement this definition, **three shades of Green** have been introduced. These shades **provide guidance and transparency to assess the materiality** of a Green Business offer⁵:

- **Shade 1** | encouraging **environmentally sustainable behaviors** (e.g., via rewards or information sharing)
- **Shade 2** | encouraging **environmentally sustainable claims management** (e.g., replacement of accidentally damaged goods - like refrigerator or washing machine - with more energy efficient devices [not sure what this is?] or with reconditioned electronic devices)
- **Shade 3** | covering **environmentally sustainable assets / activities** (e.g., low-emission vehicles, solar panels) or covering environmentally friendly clients and/or activities⁶

Green Business Framework

To support our entities in the development of their green business programs, **AXA has built a tailor-made Green Business framework**.



* Depending on the countries, SMEs are captured with Retail or with Commercial Lines solutions** Minimum level BREEAM "Excellent", LEED "Gold", Energy Performance Certificate (EPC) or "B" rating

⁵ An offer corresponds to an insurance product and/or service.

⁶ In 2021, AXA started developing a list of green clients / activities, inspired from the EU Taxonomy regulation. This list will be further developed in 2022.

Assumptions

Transversal assumptions

The following assumptions have been agreed by AXA to set the scope of the Green Business program.

- How is the Green Business program related to the EU Taxonomy Regulation?

The AXA Green Business definition **considers all the six environmental objectives of the EU Taxonomy Regulation⁷**, to ensure that **all environmentally-sustainable solutions developed within the different lines of business are included**.

- How optional guarantees are taken into account within the Green Business program?

In cases where, within an insurance offer, there is a benefit to the environment which materializes in the context of an identified guarantee (whether optional or by inclusion), AXA only considers the **marginal premium of the guarantee as green** (rather than the full premium). For example, for home insurance products which have guarantees to cover renewable energy equipment as an inclusion, AXA estimates the marginal premium for the inclusion of the guarantee (if relevant for a client) rather than capturing 100% of the premium.

- What is the relevant criteria to take into account: claims or premium?

To determine whether to take into account claims or premiums, it has been decided to account for **the time when the benefit to the environment materialises**, for example:

- When the environmental benefit materialises at the time of the claim, for example repair rather than replace, more resilient rebuild, use of low-emission / recycled material, the KPI accounted for is the amount of the **claim**,
- when the environmental benefit materialises **during the insurance policy lifetime**, for example insurance of a green asset / goods or a green activity e.g., solar panel, electric car, the KPI accounted for is the amount of **premium**.

Assumptions with respect to Shades of Green

The following assumptions have been determined **by AXA** for each of the four Shades of Green

Shade #1 | encouraging more environmentally-sustainable behaviors:

- How is climate peril insurance considered within the Green Business program?

In line with **the EU Taxonomy Regulation**, the Green Business program includes climate-related peril insurance which provide incentives / advice for risk reduction. This offer is currently available in France and in Spain.

For example, in addition to Natural Catastrophe guarantees attached to Home and Motor products, AXA France sends **meteorological alerts** to policyholders to inform them that a **climate-related peril** (flood, storm, thunderstorm, hail, snow and ice, frost and extreme cold, wave and marine submersion) is approaching.

- How is Pay-as-you-drive considered within the Green Business program?

Pay-as-you-drive ("PAYD") offers, which are already offered in certain countries (Belgium, France, Italy and Korea) and may be extended further, were initially designed to reflect the positive correlation between the number of kilometers driven and accident probability: the less you drive, the lower the

⁷ See Note 4 above

probability of being involved in an accident. But the same product is also a powerful way to **encourage policyholders to drive their cars less** and adopt more sustainable transportation.

To capture business where we **reward / encourage clients to make less use of their cars** and therefore contribute to reducing CO₂ emissions, the Green Business framework includes the premium collected on vehicles driven **less than the average of kilometers driven per country**.

Country	Average kilometer driver per car and per year ⁸
Belgium	14'800 km
France	12'000 km
Italy	8'500 km
Korea	14'300 km

For example, AXA Belgium offers a discount of ca. -15% for policyholders driving less than 5,000 km per year, and a discount of ca. -10% for policyholders driving less than 10,000 km.

Shade #2 | Green claims management:

- How is the transition to a circular economy considered within the Green Business program?

As an insurer, we have an instrumental role to play in the **transition to a circular economy**, notably via our **claims management**. In the motor Line of Business for example, the framework highlights various initiatives within the Group to encourage, where possible, the **repair of damaged car parts**, or if not possible, the **use of recycled car parts**.

Promoting parts **repair rather than replacement** contributes to carbon sobriety by extending the lifetime of parts and thus:

- limiting the use of raw materials; and
- reducing transportation needs.

Various initiatives have been launched within AXA, notably in AXA Spain and AXA Switzerland, where we promote “micro repairs” i.e., repairing certain damaged components rather than simply swapping them out (for example, window screens chips, dented wing panels, cracks on rear bumper ...). By carrying out micro repairs rather than replacing parts⁹:

- auto body shops can usually complete more repairs within the same period of time, increasing the profitability of the business,
- as micro-repairs can usually be completed relatively quickly, it generally reduces the length of time drivers are kept waiting,
- micro-repairs are generally less expensive for end clients and insurers, and
- avoiding the need for new replacement parts, which benefits the environment.

When it is not possible to replace a damaged part, AXA encourages the use of recycled spare parts as it is beneficial from both a financial and an environmental perspective:

- **Recycled car parts are generally cheaper**, especially in the context of high inflation rate in spare parts (+7% in 2020 in France). The use of recycled car parts thus generally reduces the total cost of the repair, and in turn may contribute to a **lower insurance premium**.
- The environmental benefit can have a greater impact than the part itself, as by using **recycled car parts** it may be economically viable to repair a car, which would otherwise have been written-off.

⁸ Belgium assumption based on 2017 statistics, France assumption based on 2019 statistics, Italy assumption based on 2019 statistics, Korean assumption based on 2018 statistics

⁹ <https://www.axa.ch/en/ueber-axa/blog/mobility/repair-replace.html>

Shade #3 | Green assets / activities

- How are low-carbon vehicles considered within the Green Business program?

The environmental benefit of **electric**¹⁰ and **hybrid vehicles**¹¹ is the subject of debate, because, among other arguments:

- they could encounter specific risks: such as batteries catching fire which can create intense heat and toxic fumes, causing environmental damage and, as damaged batteries can catch fire up to 48 hours after a crash, electric and hybrid vehicles are potentially more difficult to deal with after an accident.
- the amount of energy required for and the greenhouse gas emissions created by the mining for metals (such as nickel and cobalt) required for the manufacture of batteries; and
- the amount of power required to charge an electric or hybrid vehicle and the potential source of electricity production (depending on the energy mix of the country where the vehicle is charged).

However, to support the arguments for the environmental benefits of electric and hybrid vehicles, a recent International Council on Clean Transportation study, which compares the life-cycle greenhouse gas emissions of conventional combustion engine and electric or hybrid passenger cars in China, Europe, India, and the United States (four markets that are home to the majority of global new passenger car sales and reflect much of the variety in the global vehicle market) concluded that across all investigated regions and passenger car segments, electric or hybrid vehicles show lower life-cycle GHG emissions than average gasoline cars. This life cycle GHG emissions will also be significantly reduced in all regions when there is a move to entirely green electricity.¹²

Based on the position that electric and hybrid vehicles show lower life-cycle GHG emissions than average gasoline cars, it has been decided to include them within the Green Business framework.

GREEN BUSINESS AMBITION

To monitor the Green Business strategy, **three KPIs** have been developed:

- Premium
- Fees
- Claims

AXA's 2023 ambition focuses on its Green Business premium. The 2020 Green Business premium was EUR 1.1bn, and this is being used as the baseline for the **2023 Green Business premium target of EUR 1.3bn** (i.e., an increase of 13%).

The progress in this KPI will be monitored and audited by Statutory Auditors on an annual basis via the **AXA For Progress Index KPI #3**.

The two other KPIs (fees and claims) are under development.

As the positioning of the Green Business Program is based on its positive impact on the environment, the next step will be the assessment of our offers' carbon footprint.

¹⁰ corresponding to Battery electric vehicles (BEV), plug-in hybrid electric vehicles (PHEV) and fuel cell electric vehicles (FCEV)

¹¹ The offer is available in France, Belgium, Germany, Italy, Spain, UK, Hong Kong, Korea, Thailand, Mexico, Colombia, Morocco and Turkey

¹² <https://theicct.org/stack/explaining-evs/>