# Southern Cross Medical Care Society

## 2024 Climate Statements

Southern Cross Health Insurance

With you

**Murray Jordan**
Chair
Southern Cross
Medical Care Society

**Nick Astwick**
CEO
Southern Cross
Medical Care Society

# Message from Chair and Chief Executive

We're pleased to share with you the Southern Cross Medical Care Society's first set of (group) climate statements, prepared in response to New Zealand's climate-related disclosure regime.

In this report, we aim to give you an understanding of how climate change is currently affecting the Society. We have sought to describe the level of exposure the Society has, and is likely to have, to climate-related risks, the possibilities of climate-related opportunities, and the anticipated impacts on the Society if these risks and opportunities eventuated. We have also explained the Society's greenhouse gas emissions, and what we are doing to reduce them.

Our report is set out to match the thematic areas covered by the climate related disclosure regime: Governance, Strategy, Risk Management and Metrics and Targets.

These climate statements refer to Southern Cross Travel Insurance and Southern Cross Pet Insurance, and to each of the Society's other subsidiaries, but only to the extent that information about such entities is material. The Society treats the Pet and Travel businesses as passive investments because we do not have day to day control of them. In addition, although both entities are well-known in the New Zealand insurance market, they are modestly sized, particularly in the context of the Society as a whole. This is reflected in our assessment of what is material for the purposes of disclosures about these businesses in our climate statements. Information about the Travel and Pet businesses principally appears in the commentary about our investment portfolio.

The Society is a licensed health insurer and subject to prudential regulation by the Reserve Bank of New Zealand. An obvious priority for us is to ensure we meet all our licencing and capital requirements. We exist to serve the interests of our members, and we aim to be our members' life-long partner for health and wellbeing.

Our approach to internal management of climate risk matters recognises that, as a financial services business, we do not (directly) emit high levels of greenhouse gases. It also recognises that the material climate-related risks we expect to face are likely to arise in years to come, as a result of future government policy, technological changes and changes to the way we, as a country, produce and use energy.

We are committed to playing our part as the world transitions to a low-emissions, climate-resilient future, and we want to demonstrate this commitment to our Members.

We have been measuring greenhouse gas emissions for some years now. We have taken steps to reduce them, and we intend to continue our efforts. However, understanding and managing our exposure to climate-related risks and opportunities is very much a journey for us. We've made progress, but we recognise that there's more to do.

These group climate statements explain our progress so far on climate-related matters, as at 30 June 2024. Our climate-related processes and activities will continue to mature from here, and we will report updates to you annually in future group climate statements.

**Murray Jordan**
Chair, Southern Cross Medical Care Society

**Nick Astwick**
CEO, Southern Cross Medical Care Society

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# About these Climate Statements

The Southern Cross Medical Care Society (the Society) is a 'climate reporting entity' for the purposes of the Financial Markets Conduct Act 2013. These climate statements are 'group climate statements' (Climate Statements) relating to the Society and its subsidiaries. These Climate Statements comply with the Aotearoa New Zealand Climate Standards (NZ CS 1, NZ CS 2 and NZ CS 3) published by the External Reporting Board.

In this report, references to "the group", the "Southern Cross Medical Care Society", "we", "us" and "our" refer to the Southern Cross Medical Care Society and its consolidated reporting group, unless otherwise stated. "Members" refers to the members of the Southern Cross Medical Care Society. Dollar amounts ($) referred to in these Climate Statements are stated in New Zealand dollars.

In this first reporting period, the Society is using Adoption provisions 1-7, under the NZ CS2 standard, as follows:

- NZ CS2(10) and (11): current financial impacts of physical and transition impacts and an explanation of why quantitative information is not able to be provided;
- NZ CS2(12), (13) and (14): anticipated financial impacts, time horizons over which these occur and explanation of why quantitative information is not able to be provided;
- NZ CS2(15): transition plan, and how it aligns with internal capital deployment and funding decisions;
- NZ CS2(17): certain aspects of Scope 3 greenhouse gas (GHG) emissions (noting that the Society has identified the sources which are not disclosed);
- NZ CS2 (18): comparative information for metrics relating to Scope 3 GHG emissions;
- NZ CS2(20): comparative year for metrics;
- NZ CS(22): analysis of trends from comparison of metrics.

Signed by:

**Murray Jordan**
Director, Chair of the Board

**Chris Black**
Director, Chair - Audit and Risk Committee

29 October 2024

## Disclaimer

The Society has used its best efforts in preparing these Climate Statements, with information stated as at 30 June 2024. Climate change science and our understanding of its impact on the environment and on health outcomes – for individuals and communities – is constantly evolving. There is uncertainty and there are data challenges, particularly over long-term horizons.

This report contains forward-looking statements, which necessarily involve assumptions, forecasts and projections about the environment in which the Society will operate in the future, and the Society's current and future strategies. The disclosures rely on, and include, early and evolving assessments of current and forward-looking information, and incomplete and estimated data, and the Society's related judgements, opinions and assumptions. The Society has formed these views based on historical experience, internal business data, and models sourced from external providers. We have made assumptions about global responses to climate change, government policy, regulatory developments, and the development of various technologies.

Descriptions of the current and anticipated impacts of climate change on the Society are therefore necessarily estimates only. Many factors can affect the impacts of climate change, and these may differ materially from what is described in this report. The risks and opportunities described in this report may or may not eventuate or may be more or less significant than anticipated.

# About the Southern Cross Medical Care Society

The Society is a friendly society, registered in New Zealand under the Friendly Societies and Credit Unions Act 1982. The Society is a 'for purpose' entity, operated for the benefit of Members. The Society's assets are vested in the Society's trustees (Trustees), and the administration, management and control of the Society is vested in the Board.

For the purposes of these Climate Statements, and the Society's consolidated annual financial statements, the Society group is made up of the Society and its five investment subsidiary entities, as shown below.

The Society operates the Southern Cross health insurance business. In the year ended 30 June 2024, we had 955,301 Members and made up 60% of the health insurance market in New Zealand*. We received $1.605 billion in premiums and paid out $1.498 billion in claims. Out of every dollar received in premiums, 93.34 cents was paid in claims.

Southern Cross Benefits Limited, trading as Southern Cross Travel Insurance (SCTI) and Southern Cross Pet Insurance Limited, trading as Southern Cross Pet Insurance, (SCPI) are the Society's two principal subsidiaries. The Society considers each of SCTI and SCPI as investment subsidiaries, treating them as passive investments. While each of the Society, SCTI and SCPI share the Southern Cross brand, they are operated as separate insurance businesses, with separate insurance licenses, separate management teams and independent boards.

**Southern Cross Medical Care Society**
Friendly Society, Licenced Insurer

**Southern Cross Health Services Limited**
Dormant entity

**Southern Cross Insurance Services Limited**
Derives commission from life insurance policies underwritten by Chubb Life Insurance New Zealand Limited

**Southern Cross Ventures Limited**
Holds 50% partnership in CareHQ Ltd

**Southern Cross Pet Insurance Limited**
Trading as Southern Cross Pet Insurance - Licenced Insurer

**Southern Cross Benefits Limited**
Trading as Southern Cross Travel Insurance - Licenced Insurer

*Based on data provided by the NZ Financial Services Council and including an estimate for nib Health Insurance.

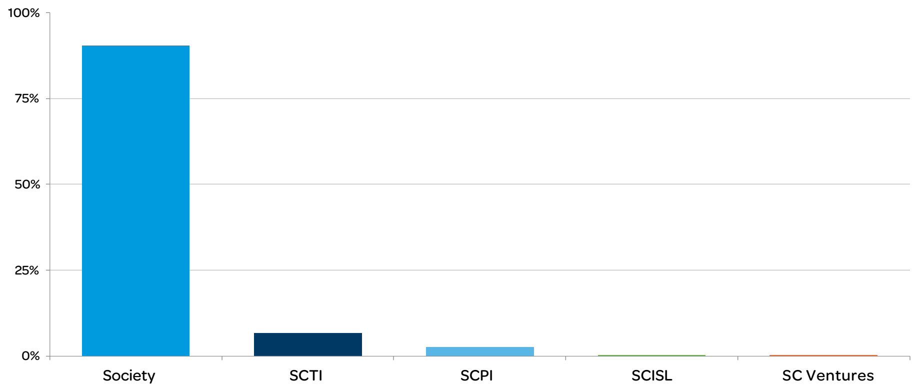
## Materiality assessment

Information is disclosed in these Climate Statements where it is material.

The Society treats SCTI and SCPI, for all purposes (including in relation to accounting for GHG emissions) as investments, and not as operating subsidiaries. Information is therefore disclosed about these entities to the extent it is material in that capacity.

None of Southern Cross Ventures Limited (SC Ventures), Southern Cross Insurance Services Limited (SCISL) or Southern Cross Health Services Limited are material investments and so no disclosures appear about these entities.

Proportion of the Society's net assets represented by its investment subsidiaries (as at 30 June 2024)




Summary of Society's total GHG Emissions for year ended 30 June 2024

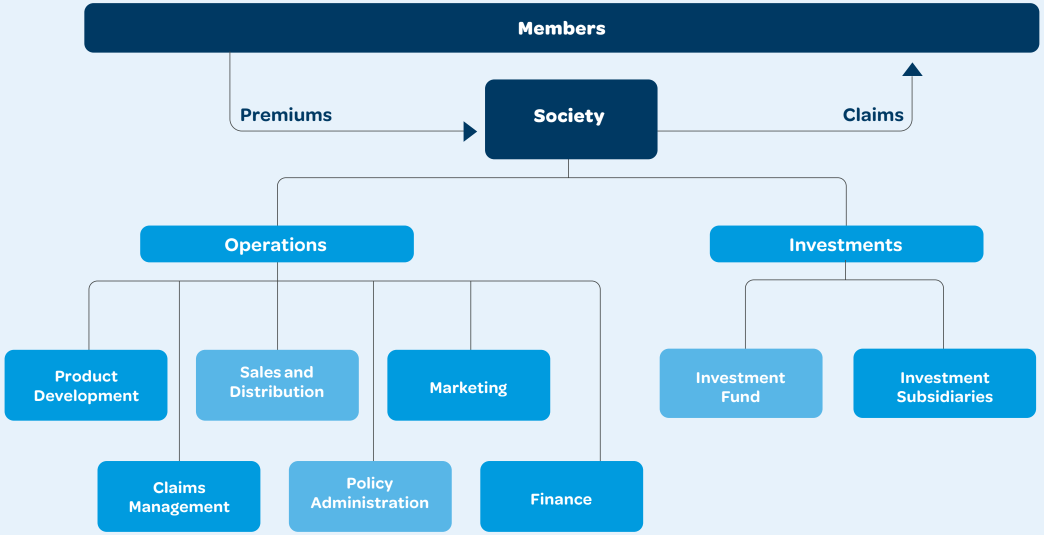
| GHG Emissions | t CO2e | % of the Total Emissions |
|---|---|---|
| Scope 1 | 144 | 1.17% |
| Scope 2 | 35 | 0.29% |
| Scope 3: Investments – SCPI | 12 | 0.09% |
| Scope 3: Investments – SCTI | 6 | 0.05% |
| Scope 3: Investments – Other | 10,131 | 82.03% |
| Scope 3: Other | 2,023 | 16.38% |
| **TOTAL** | **12,351** | **100%** |

More information about the Society's GHG emissions is in Section 4: Metrics and Targets. See, in particular, page 19 for how the Society's GHG emissions are calculated.

## Our value chain

In these Climate Statements, the Society has generally viewed its value chain by reference to its insurance activities (receiving premiums and paying claims, in accordance with contracts of insurance between the Society and its Members), its investment activities, and its day-to-day business operations as it runs its health insurance business and its supporting investment activities.

The components of Society's investment portfolio (including investments in SCTI, SCPI and its other direct capital investment subsidiaries) form part of the Society's value chain as investments. As such, they appear in our GHG emissions profile as part of our Scope 3 emissions.



# Section 1: Governance

## Board oversight of our climate-related risks and opportunities

The Society's board of directors (Board) is responsible for oversight and management of all risks and opportunities for the organisation, including those related to climate change. The directors' responsibilities are set out in the Board Charter. The Trustees are responsible for the investment of the Society's funds, and for formulating investment policies, with the consent of the Board.

Two sub-committees assist the Board with these activities:

- The Audit and Risk Committee (ARC) is responsible for oversight of the Society's primary business risks, its Risk Appetite Statement, Risk Management Policy and Risk Management Framework. The ARC, in carrying out these responsibilities, considers climate-related matters where and when appropriate. The ARC is also responsible for management and oversight of the Society's financial and other reporting, including recommendation of the draft financial statements and draft Climate Statements to the Board for approval.
- The Investment Committee has governance oversight of, and monitors, the Society's investments made up, principally, of the Society's core investment fund (Investment Fund) and its direct investment subsidiaries (Direct Capital Investment Portfolio) and provides the Board with information and advice on the Society's investments as required. Climate-related matters are dealt with by the Investment Committee as appropriate, as part of these activities.

During FY24 the following in-depth climate-related discussions were held by the Board or its committees:

- August 2023 (Investment Committee): Review and discussion of the Society's global equities asset class, held as an investment in a 'Sustainable Global Equities Fund'.
- September 2023 (ARC): Review and discussion of the Society's climate-related risk assessment and climate scenario analysis.
- October 2023 (Investment Committee): Workshop session to consider and review the Society's statement of investment beliefs, including in relation to responsible investment.
- December 2023 (Board): Update on progress with Society's FY24 CRD project.
- February 2024 (Board): Update on Society's FY24 CRD project, approval of the CRD internal due diligence process, and delegation of authority to ARC to oversee the CRD process and manage the preparation of the Society's climate statements.
- February 2024 (Investment Committee): Consideration of the Society's proposed investment beliefs, including in relation to responsible investment, as part of a wider review of the Society's investment management framework.
- March 2024 (ARC): Update on progress with the Society's FY24 CRD project.
- May 2024 (ARC): CRD workshop.
- June 2024 (ARC): Consideration, for recommendation to the Society Board, of Society's proposed approach to GHG emissions targets; review of draft FY24 climate statements.

## Skills and competencies of the Board in relation to climate change

The Board accesses climate-related expertise within the Society where it is available, or externally where specialist advice is required. For example, the Society has sought expert assistance when conducting the Climate Scenario Analysis (referred to in Section 2: Strategy) and when considering its approach to setting appropriate GHG emissions reduction targets.

The skills and experience amongst the Board are recorded in a Board Skills Matrix, which is updated periodically. Skills in relation to climate change are captured within an ESG category (covering environmental, social and governance matters). The Board last updated its Board Skills Matrix in August 2023.

In May 2024, as noted above, in addition to the specific discussions in relation to matters presented to the Board for action, members of the ARC participated in a CRD workshop session.

## Integration of climate-related matters into our strategy

The Society has different strategies in place in relation to its insurance business and its investment portfolio. The Board oversees development and implementation of the strategy applicable to each, with assistance from Management and appropriate Board sub-committees. Climate-related matters are dealt with as relevant, as part of these wider strategy processes.

- **Our insurance business:** The Board currently adopts a three-year business planning horizon, which is reviewed annually and supported by quarterly updates from Management as to strategic health. All material risks and opportunities, including climate-related matters (as relevant), are considered as part of the business strategy development and review process.

  During FY24, the Board considered the Climate Scenario Analysis and the climate-related impacts on the Society. No material climate-related matters were identified that require a change to the Society's business strategy in the short to medium term (3-10 years), although certain matters were identified that may require strategic consideration over the longer term (10 – 30 years). These matters are discussed in more detail in Section 2: Strategy.

  In June 2024, the ARC recommended to the Board that it adopt new Scope 1 and Scope 2 GHG emissions reduction targets, and that the Society conduct a comprehensive review of its climate-related metrics and targets in FY26. The Society's metrics and targets are discussed further in Section 4: Metrics and Targets.

- **Our investment portfolio:** The Society has investment objectives and strategies for both elements of the Society's investment portfolio, made up of the Investment Fund and Direct Capital Investment Portfolio.

  - <u>Investment Fund:</u> Climate-related considerations are reflected in one of six investment beliefs that underpin the Society's philosophy in relation to the Investment Fund. This belief states that the Society has a duty to invest responsibly where practical and in a manner which does not conflict with the best interests of the Members. Currently this belief, in relation to climate change, is expressed by adopting a low-carbon approach to investment in global equities. The Society's external investment managers must demonstrate their ability to respond to all our investment beliefs.

    As at 30 June 2024, approximately 13% of the Investment Fund was invested in a 'Sustainable Global Shares Fund'. This fund targets (among other sustainability-related goals) a reduction of 50% in carbon emissions and carbon reserves, and an increased exposure to renewable energy, as compared to a benchmark index, with the sustainability-related measures calculated by reference to the entities whose shares are held in the fund.

  - <u>Direct Capital Investment Portfolio:</u> One of the outcomes that the Society expects from each of SCTI and SCPI, as investment subsidiaries, is that as part of those entities' non-financial reporting, environmental factors have been considered (as part of wider environmental, social and governance-related (ESG) considerations) and reported to the Society.

    The Society received reports from each of SCTI and SCPI in March 2024 as to how climate-related risks are managed, and their impact on business strategy. SCTI and SCPI each reported that they are actively considering the impact of climate risks on their businesses. SCTI reported that it expects the increasing incidences of extreme weather events to pose the most material risk to the underwriting of travel insurance in the short term, and that it has made necessary arrangements to mitigate material impacts of this risk to its business.



## Management's role in assessing and managing our climate-related risks and opportunities

The Society's Management team has responsibility for key climate-related matters, as noted below.

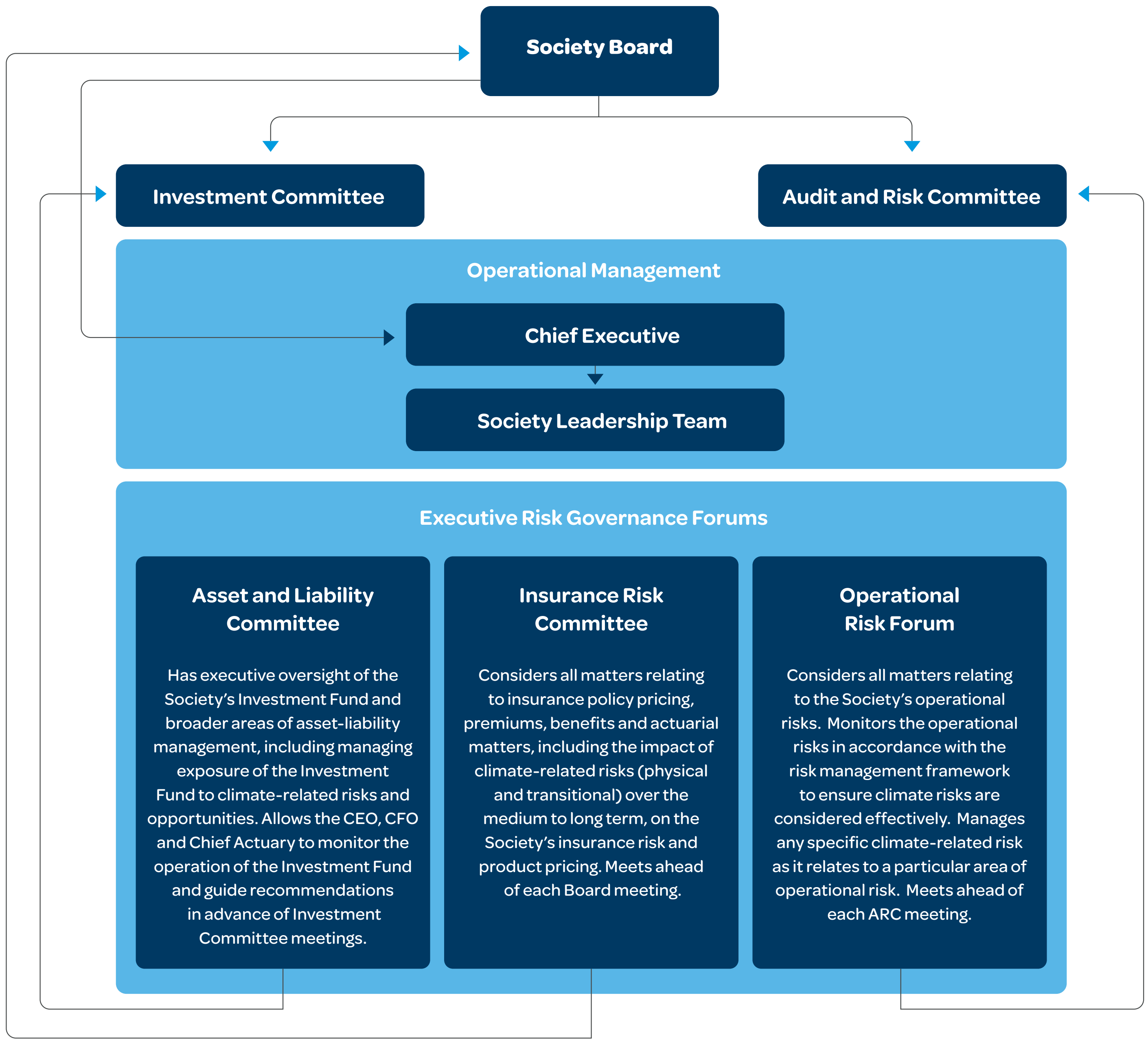
| Area of responsibility | Society Leadership Team Responsibility |
|---|---|
| Preparing the Society's business strategy, including relevant climate-related elements | Chief People and Strategy Officer |
| Managing the Society's investment strategy, in accordance with relevant investment policies | Chief Finance Officer |
| Identifying priority climate-related risks and opportunities | All |
| Managing the annual CRD process and preparing the annual climate statements | Chief Finance Officer |
| Managing the Society's enterprise risk management processes | Chief Risk Officer and General Counsel |
| Implementing strategy and risk management practices | All |

Three executive governance committees provide executive oversight of different aspects of the Society's business, including relevant climate-related matters. The organisational structure of the Society, including these committees and their roles and responsibilities, is described in the diagram on page 10.

To date, no material climate-related risks (whether physical or transitional) have been identified which need to drive changes to the Society's current strategic priorities. The Board has therefore not considered associated climate-related metrics and targets for personnel and there are no specific climate-related performance metrics incorporated into remuneration policies or arrangements for any Society personnel.

During the next 12-24 months, the Society intends to consider further the range of metrics and targets that will form part of the Society's plan to manage its climate-related risks and opportunities. Such metrics and targets will be subject to Board approval, and those approvals will include an agreed oversight pathway, which may include KPIs for relevant Society personnel.

**Organisational governance chart – Southern Cross Medical Care Society**




# Section 2: Strategy

## Our business model and strategy

The Society is a ‘for purpose’ friendly society that operates the Southern Cross health insurance business for the benefit of Members. Our two principal areas of business comprise our health insurance business and our investment activities. Our health insurance business is self-funded through a combination of premium income and returns from our investment portfolio. We cannot borrow or raise external capital, and nor do we have arrangements with external re-insurers.

- Our **business strategy** is focused on delivering our purpose of empowering our Members to live well for longer. We aim to provide our Members with quality healthcare through affordable health insurance and access to offers that support health and wellbeing. We also want to demonstrate to our Members that we are playing our part as the global and domestic economy transitions to a low-emissions, climate-resilient future state.
- Our **investment strategy** is focused on maximizing the returns on our investment portfolio subject to meeting our insurance liabilities and all relevant capital management requirements, and investing in accordance with the Society’s investment beliefs. To achieve these objectives the Society manages the core Investment Fund within an approved strategic asset allocation to certain broad asset classes.

Over the last few years, the Society’s principal strategic focus in relation to climate has been to limit our impact on the environment, and to demonstrate this to our Members. For example:

- The Society has been a Toitū Envirocare carbonreduce certified organization since 2019. Our current certification relates to the financial year ended 30 June 2024.
- In October 2020 the Society’s Auckland-based head office moved to its current premises in Te Kupenga, a 6-star Green rated building in Wynyard Quarter. The relocation was coupled with a reduction in floorspace (relative to the previous office space) and the introduction of new hybrid working practices, lowering occupancy in the building and, with it, usage of purchased electricity.
- In November 2021, the Society made its first investment in a ‘Sustainable Global Shares Fund’, a fund which targets (among other sustainability-related goals) a reduction of 50% in carbon emissions and carbon reserves, and an increased exposure to renewable energy, as compared to a benchmark index.

Following the Climate Scenario Analysis (described further on the following pages), we now better understand the nature of the climate-related risks that the Society faces, and relevant time frames. In the next 12-24 months we plan to consider further how best to manage the impacts of these risks, and how to incorporate appropriate steps into our business and investment strategy processes.

TOITŪ
CARBON REDUCE
ISO 14064-1 ORGANISATION

The Society is a Toitū Envirocare carbon reduce certified organisation. The Toitū Envirocare carbon certification is a voluntary programme that the Society participates in as part of its commitment to climate action. This carbon certification programme requires adherence to a set of standards and rules on an annual basis, focusing on measuring and reducing GHG emissions according to ISO 14064-1: 2018 standards.

## Climate Scenario Analysis

We have conducted climate scenario analyses (Climate Scenario Analysis) to help us understand the physical and transition risks and opportunities the Society is likely to face in the coming years, and how those matters are expected to impact the Society and its business. This was a standalone process, conducted separately from our usual strategy review process. This initial Climate Scenario Analysis principally considered the Society's health insurance business. As our climate risk processes mature, we expect to extend our Climate Scenario Analysis to consider more fully our investment portfolio.

We explored three scenarios: "Orderly", "Too Little, Too Late" and "Hothouse". Each scenario was created using conditions assumed to exist under each scenario, over three time-horizons (short, medium and long term).

In developing these scenarios, we used the *Climate Scenario Narratives for the Financial Services Sector* report prepared by the Financial Services Council (dated 9 June 2023) as a reference. This report was prepared to assist participants in the life insurance, health insurance and fund management sectors with climate scenario analysis. The Society was a participant in the Financial Service Council working group that developed the scenarios and created the report.

The three scenarios are summarized in the table on page 13, and results of the analysis are explained in more detail in the following pages.

Our scenarios were created with the help of specialist external advisers (Finity Consulting Pty Ltd), and with input from a society working group made up of representatives from across the business (Society Working Group).

## How we created the scenarios

| | |
|---|---|
| **Step 1** | Conducted research into the physical and transition impacts of climate on the health sector and consulted with private health insurers in Australia. This research included local and international searches, and reviews of government policy. |
| **Step 2** | Identified key stakeholders to form the Society Working Group to engage with and help develop the climate scenarios and identify climate-related risks to the Society's business strategy. |
| **Step 3** | Drafted scenarios and met with the Society Working Group. |
| **Step 4** | Performed a high-level materiality assessment using research, claims data, and publicly available demographic data. |
| **Step 5** | Tested and refined climate scenarios through small group interviews, including a meeting with the Society's Chief Medical Officer, and discussions with the Society Working Group. |
| **Step 6** | Climate scenarios were discussed with and reviewed by the Society Leadership Team and the Society Board. |
| **Step 7** | Conducted a qualitative assessment of the resilience of the Society's business strategy against the three climate scenarios. This was a standalone process from the Society's wider strategy review and development process. |

The reference data and assumptions that were used to inform our Climate Scenario Analysis are set out in the Appendix (Climate Scenario Analysis).

## Climate scenario analysis continued

| Scenarios | |
|---|---|
| **Orderly** | Progressive action across the globe supports a steady transition to a lower emissions economy.<br>This includes greater stringency and scope of mandatory climate reporting, emissions trading schemes and carbon taxes around the world. Societal pressure is put on entities to decarbonize, with increasing climate litigation, and preferences change towards low emission products. Meanwhile, there is investment in low emission and emission abatement technology. This includes a rapid take up of electronic vehicles, and changes in the agricultural sector.<br>Global emissions decline rapidly, driven in part by an increase in carbon pricing. This scenario is consistent with net zero by 2050, limiting global warming to 1.5 degrees C.<br>Physical risk increases but is low in comparison to other scenarios over all three time-horizons. All countries face internal challenges with the transition to a low carbon economy but, overall, the economy benefits from a stable transition. |
| **Too Little, Too Late** | This scenario assumes a misaligned and delayed transition to a low carbon economy.<br>Some countries – including New Zealand – are early movers, introducing policy that brings about net zero emissions by 2050, including increases in carbon prices. Other parts of the world take very little action towards a low emissions future, and there is a delay in the development and implementation of low emission technologies.<br>Then there is sudden and uncoordinated transformation, driven in part by the increasing evidence and awareness of the impact of continued fossil fuel development. However, the change comes too late to avoid medium term physical impacts and, overall, there are significant transition impacts, compared to other scenarios.<br>Emissions decline steadily from 2020 to 2050 but, by 2050, are still higher than net zero. Globally temperatures warm by 2.7 degrees C by 2100. |
| **Hothouse** | This scenario represents minimal political or social action towards a low carbon transition, despite increasing social, economic and environmental impacts.<br>The scenario is one of increasing consumption and lack of investment in low carbon emission technology, and the carbon price declines. Early adopters of progressive climate policy, including New Zealand, roll back some climate policies.<br>Ongoing fossil fuel use sees emissions continue to rise throughout the 21st century, leading to 4.4 degrees C of warming at the end of the century.<br>Overall, the Hothouse scenario has low transition risk, but high physical risk, compared to other scenarios. |

### Time Horizons

| Short Term | Medium Term | Long Term |
|---|---|---|
| 1-3 years (2025) | 5-10 years (2030) | >30 years (2050+) |

## Anticipated climate-related risks and opportunities

The table below summarises the physical and transition risks we have identified through the Climate Scenario Analysis and the anticipated impact of those matters on our business.

We have considered impacts over the short (1-3 years), medium (5-10 years) and long term (30+ years). These time horizons align with our scenario analysis.
The short-term horizon corresponds with our budgeting and planning cycle.

| | Potential impact on the Society | Elements of the Society's business likely to be impacted |
|---|---|---|
| **Physical Risk** | | |
| Claims inflation associated with rising temperatures, particularly for individuals with co-morbidities (for whom rising temperatures create greater health risks). | Limited impact over short and medium terms, in all three scenarios. Greater impact over long term, in Hothouse scenario. | Moderate increase in claims costs in some segments of our customer base. This may require an underwriting response or premium adjustments over the longer term. |
| Business disruption due to extreme weather, including more storms, flooding and heat waves, with associated risks of power blackout. | Limited impact in all three scenarios, over short to medium term. More likely in long term but still limited impact, noting that the Society does not cover emergency presentations. | Short-term impacts on our business operations. For example, our ability to process claims and policies may be temporarily affected. Impacts are expected to be manageable, as part of our normal business continuity processes. |
| **Transition Risk** | | |
| Government introduces new legislation that responds to climate change. | Potential for moderate impact over short, medium and long term, across all three scenarios. | Operating expenses may increase, and this may require an increase in premiums. |
| Complex mix of demographic and socio-economic changes, across the private and public health systems. | Limited impact over short term, more relevant in medium to long term, particularly in a Hothouse scenario. | Potential impacts on customer mix and the demand for private health services. |
| Climate change contributes to price inflation across many sectors of the economy. This leaves households and businesses with less disposable income, and less ability to afford health insurance. | Limited impact over short term, more relevant in medium to long term, across all three scenarios. | Potential impact on the demand for private health insurance, affecting premium levels. |
| Rising healthcare costs resulting, directly or indirectly, from transitionary measures (eg higher electricity costs, and movement away from single use disposable plastics). | Limited impact over short to medium term, greater impact over longer term, across all three scenarios. | Potential increase in claims costs or operating expenses, requiring an increase in premium levels. |
| SCMCS does not respond to societal and government 'greening' expectations or meet climate-related regulatory requirements. | Negative financial impact over short term and increasing over medium and longer term, across all three scenarios. | Reputation damage and financial impact. |

We have identified some potential climate-related opportunities, the nature of which – including the potential impact on the Society's business – we intend to consider further during the next 12-24 months.

## Current impacts of climate change on our business

In FY24, the Society did not experience any material impacts of climate change, whether physical or transitional.

We are aware that even if the impacts of climate-related matters are unlikely to materially affect our (wider) business strategy in the short to medium term, our Members still expect us to minimize our impact on the environment and play our part in GHG emissions reduction. Actions we are taking as a result are discussed further in Section 4: Metrics and Targets.

## Progress with our transition plan

We intend to consider further the matters relevant to our transition plan in the next 12-24 months. By this time we expect to understand our full GHG emissions inventory (including our insured emissions) which will subsequently inform our metrics and targets.

# Section 3: Risk Management

## Our approach to risk management

The Society identifies and manages its key risks, including climate-related risks, through its risk management programme.

The Risk Appetite Statement records the Society's risk appetite across all aspects of the business. Risks in relation to the health insurance business and the investment portfolio are identified and managed in accordance with the Society's Risk Management Framework.

## How we identify, assess and manage our material business risks, including climate risks

### Health insurance business

The risk identification process considers changes to external and internal environments to determine if any new risks have materialised and need to be assessed. Management team members also consider emerging risks relevant to their own business units.

All identified risks, including climate-related risks, are then assessed through a 'five by five' risk matrix. Through this assessment we consider the likelihood of the risk occurring, and the impact on the business should it occur, currently over a short-term time horizon, to produce an overall risk rating, factoring in control assessments.

The Climate Scenario Analysis involved a comprehensive analysis of climate-related risks that the Society could face. In relation to each scenario, identified risks were assessed for materiality by reference to their estimated impact on the Society's financial position. Through this process the Society was able to assess the likely scope, size and impact of the climate-related risks identified (both physical and transition risks) over the short term (1-5 years), medium term (5-10 years) and longer term (30+ years).

The Society currently views two climate-related impacts as key risks to its business:

- Reputational damage: Failing to meet any GHG emissions targets that the Society has set for itself, due to inadequate actions being taken, leading to a failure to meet our strategic objectives, reputational damage, or incurring regulatory sanctions.
- Regulatory action: Failing to appropriately meet the requirements of the climate reporting regime, due to process failures, leading to regulatory action and reputational damage.

All key risks, including climate-related risks, once identified, are managed through the risk management process set out in our Risk Management Framework. Controls are identified and their effectiveness assessed, supplemented by implementing and monitoring key risk indicators, with reporting obligations to the Operational Risk Forum, ARC and ultimately, as appropriate, the Board.

### Investment portfolio

Climate-related risks arising in relation to the Society's overall investment portfolio are currently viewed in terms of 'responsible investment'. One of the Society's investment beliefs is that the Society has a duty to invest responsibly where practical and in a manner which does not conflict with the best interests of the Society. In particular, the Society believes that it should consider ways to address climate change, where practical. Currently, that investment belief is expressed by the portion of the Investment Fund allocated to global equities being invested in a Sustainable Global Shares Fund.

The Investment Committee, with support from the Assets and Liability Committee and the Chief Finance Officer, has primary oversight of risks in relation to the Society's Investment Portfolio Investment Portfolio, including climate-related risks.

## How we are developing our approach to climate risk management

We expect to enhance our climate risk review process over the next 12-24 months.

- We are now reviewing our business-wide risk management systems to determine how we can appropriately consider the long term and uncertain nature of climate-related matters within our existing risk management programme.
- The Investment Committee work plan for FY25 currently includes a review of the Society's investment strategy in relation to responsible investment, including managing climate risk across the whole investment portfolio.
- We expect to review and refresh the Climate Scenario Analysis every 3-5 years or earlier if the Society makes significant changes to its business model or additions to its value chain. We expect also to consider how the Climate Scenario Analysis could be extended to include the Society's investment portfolio.

# Section 4: Metrics and Targets

## Our approach to Metrics and Targets

Currently, the Society's climate-related metrics and targets centre on our GHG emissions. Over the coming 12-24 months, as our approach to climate risk matures and as we are able to consider our complete (and assured) GHG emissions inventory, we intend to comprehensively re-assess our metrics and targets. This will include considering relevant metrics and associated targets that do not centre on our GHG emissions.

## Our FY24 GHG Emissions Inventory

The Society's total GHG emissions in FY24 (covering the period from 1 July 2023 to 30 June 2024) were 12,351 tCO2e, with (measured) Scope 3 Financed Emissions making up 82% of all measured emissions. The table below sets out the Society's FY24 emissions by scope, emissions category and as a percentage of the Society's total emissions, compared to FY23.

| Categories | Leading Sources of Emissions | 2024 | | 2023 | |
|---|---|---|---|---|---|
| | | Total Emissions (tCO2e) | % of Total emissions | Total Emissions (tCO2e) | % of Total emissions |
| **Scope 1** | | | | | |
| Company vehicles | Fuel emissions from our vehicle fleet | 144 | 1% | 145 | 1% |
| **Scope 2** | | | | | |
| Purchased electricity (location based) | Electricity usage at our offices and data centres | 35 | <1% | 60 | <1% |
| **Scope 3** | | | | | |
| Cat 1. Purchased goods and services | Primarily use of laptops, commissions paid to advisers and advertising & marketing costs | 1,237 | 10% | 995 | 6% |
| Cat 5. Waste generated in operations | Waste, compost and recycling at our offices | 2 | <1% | 2 | <1% |
| Cat 6. Business travel | Primarily air travel for business purposes | 209 | 2% | 271 | 2% |
| Cat 7. Employee commuting | Employee commuting; working from home. | 477 | 4% | 271 | 2% |
| Cat 9. Transportation & distribution | Primarily postage and couriers | 98 | 1% | 98 | 1% |
| Cat 15. Investments: | | | | | |
| • Financed emissions | Emissions from investments | 10,149 | 82% | 14,173 | 88% |
| • Insured emissions | Emissions from our underwriting activities | Not yet measured | | Not yet measured | |
| **TOTAL** | | **12,351** | **100%** | **16,015** | **100%** |

The reduction in the Society's total GHG emissions in FY24, as compared to FY23, is primarily due to the reduced value of the Society's investment portfolio, made up of the Investment Fund and the Direct Capital Investment Portfolio (FY24: $668 million; FY23 $730 million).

## How we calculate our GHG emissions

The principal standard we use when calculating our GHG emissions and creating our GHG emissions inventory is *A Corporate Accounting and Reporting Standard, ISO 140641:1-2018*, and the accompanying standard that applies in relation to accounting for and reporting Scope 3 emissions. A full list of the standards and other guidance we used in preparing our GHG emissions inventory are set out in the Appendix (Standards and Guidance used in preparing our GHG emissions inventory).

Specific points to note about our GHG emissions inventory:

- We apply the 'operational control' consolidation approach to our GHG emissions inventory, reflective of the structure of the Society's consolidated reporting group.
- We account for the emissions relating to our investments in SCTI and SCPI as Scope 3 (Financed Emissions) on the basis that the Society does not have operational control of these financial investments; they are not included as part of the Society's Scope 1 or Scope 2 emissions, or in any other category of Scope 3.
- We do not yet measure our Insured Emissions, which will form part of our Scope 3 (Financed Emissions). This is because the technical GHG accounting standard which will guide us (and all other health insurers, globally) on how to measure and calculate our Insured Emissions is not yet available. The Insured Emissions measure seeks to reflect the GHG emissions associated with our underwriting activities in our health insurance business. We anticipate that the standard, when available, will require a calculation which takes account of the GHG emissions arising from both our Members and the New Zealand health system used by Members when accessing treatment paid for by the proceeds of claims made under the Society's health insurance policies.

## Emissions excluded from our FY24 GHG Emissions Inventory

The emissions sources in this table have been identified but excluded from our FY24 GHG emissions inventory. While these emissions sources are considered relevant to our operations, they are either not material to stakeholders, not material in context of the inventory, and/or not technically feasible or cost effective to be quantified.

| Emission Category | GHG emissions category | Reason for Exclusion |
|---|---|---|
| Fleet LPG | Scope 1 | There are currently no vehicles using this type of fuel |
| Refrigerants - air con units, refrigeration systems, other | Scope 1 | Refrigerants (other than R134A from fleet air-conditioning) have been excluded as they are not the responsibility of the Society in any of our leased buildings. |
| Freight sea, air and rail | Scope 3 | Freight (other than inter-island road freight), is immaterial to the business. |
| Licences – development of software by 3rd party and end of life not included, however emissions relating to the use of licences are included through use of laptop, working from home, staff commuting, electricity, network etc | Scope 3 | Level of influence, and lack of availability of data |
| Waste landfilled Land Fill Gas Recovery, Mixed waste from offices outside Auckland and Hamilton | Scope 3 | Level of influence, magnitude (de minimus) and lack of availability of data |
| Municipal debt instruments and government bonds | Scope 3 | Magnitude (de minimus) and lack of availability of data |
| Insured emissions | Scope 3 | There is not yet a GHG accounting standard available to guide health insurers on how to calculate Insured Emissions |
| Emissions from subsidiaries:<br>• Southern Cross Insurance Services Limited<br>• Southern Cross Health Services Limited<br>• Southern Cross Ventures Limited | Scope 3 | Magnitude (de minimus) |

## Use of offsets

We have not used offsets in the Society's GHG emissions reduction activities in FY24. We intend to consider the use of offsets when we further consider our comprehensive climate-related metrics and targets.

## Our GHG emissions targets

The Society has set a target of reducing its Scope 1 and Scope 2 GHG emissions by 30%, on an absolute basis, by 2030. We will use our FY23 emissions levels as our base year for this target.

We consider that adopting (and meeting) a target addressing our Scope 1 and Scope 2 emissions will contribute to lowering the overall concentration of GHGs in the atmosphere, and therefore contribute towards mitigating global warming. We recognise, however, that our contribution towards limiting global warming to 1.5 degrees C may be more effective if we also adopt a longer term 'net zero' or equivalent target.

We intend to re-assess the Society's climate-related metrics and targets, including short term and longer term GHG emissions reduction targets, and what sort of methodology we might use to help us assess and formulate such targets, in the next 12-24 months. By then, we expect to have a more complete picture of our Scope 3 emissions, including our Insured Emissions. We will also have completed the limited assurance review of our FY25 GHG Emissions Inventory required by the CRD regime, and so have confidence in that baseline data.

## Other FY24 climate-related metrics

| | |
|---|---|
| **Emissions intensity** | 13.85 tCO2e per Society Full-Time-Equivalent employee<br>*Gross tCO2e / total employees* |
| | 0.0077 per $1,000 of premium revenue<br>*Gross tCO2e /premium revenue* |
| **Amount or percentage of assets vulnerable to climate risks** | We consider that the impact of any physical or transitional climate risks the Society is likely to face will be reflected in increased claims costs. We currently consider that claims cost increases related to such risks, are likely to be moderate.<br>Dealing with and managing the cost of claims involves all aspects of the Society's business (underwriting activities, business operations and investment activities). Currently, however, we do not consider that any specific amount or percentage of the Society's business or assets is "vulnerable" to either physical or transitional climate risks. |
| **Capital deployed** | As at 30 June 2024, approximatey 13% of the Society's Investment Fund was invested in a Sustainable Global Shares Fund (described further on page 8). |
| **Internal emissions price** | The Society does not use an internal emissions price. |

# APPENDIX

## Climate Scenario Analysis

The reference data and assumptions that were used to inform our Climate Scenario Analysis are set out in the table below.

| ASSUMPTION DATA | SCENARIOS | | |
|---|---|---|---|
| | Orderly 1.5C | Too Little, Too Late >2C | Hothouse >3C |
| Global Climate Parameters | IPCC SSP 1 | IPCC SSP2 | IPCC SSP3-7.0 |
| | ***IPCC:*** *Inter-governmental Panel on Climate Change*<br>***SSP:*** *Shared Socio-economic Pathways* | | |
| Global Emissions Pathways | NGFS Net Zero 2050<br><br>IEA Net Zero by 2050 | NGFS Nationally Determined Contributions<br><br>IEA Announced Pledges Scenario Analysis | NGFS Current Policies<br><br>IEA Stated Policies Scenario |
| | ***NGFS:*** *Network for Greening of the Financial System*<br>***IEA:*** *International Energy Agency* | | |
| NZ-specific Climate Parameters | NIWA RCP2.6 | NIWA RCP4.5 | NIWA RCP8.5 |
| | ***NIWA:*** *National Institute of Water and Atmospheric Research*<br>***RCP:*** *Representative Concentration Pathways* | | |
| NZ-specific Emission Pathways | CCC Tailwinds | CCC Headwinds | CCC Current Policy Reference |
| | ***CCC:*** *Climate Change Commission* | | |

# APPENDIX CONTINUED

## Standards and guidance used in preparing our GHG emissions inventory

We have measured and reported our GHG emissions with guidance from the following standards:

- *ISO 14064-1:2018: Greenhouse gases, Part 1: Specification with guidance at the organisation level for quantification and reporting of greenhouse gas emissions and removals*
- *Green House Gas Protocol: A Corporate Accounting and Reporting Standard*
- *Green House Gas Protocol: Corporate Value Chain (Scope 3) Accounting and Reporting Standard*
- *Partnership for Carbon Accounting Financials: Financed Emissions – Global GHG Accounting & Reporting Standard, Part A.*

The following guidance was also used in the preparation of our GHG Emissions Inventory:

- *Green House Gas Protocol – Scope 2 Guidance*
- *Green House Gas Protocol – Scope 3 Calculations Guidance*
- *New Zealand Ministry for the Environment's 2023 'Measuring Emissions: A guide for organisations'*
- *Partnership for Carbon Accounting Financials: Insurance Associated Emissions – Global GHG Accounting & Reporting Standard, Part C*

The Society utilised Toitū's Emanage software to calculate our emissions, with emissions factors and associated Global Warming Potential (GWP) rates provided within the software. In FY24 Emanage utilised a combination of 2024 and prior year emissions factors and GWP rates including the following:

- *International Energy Agency – IEA Emission Factors – France (2022)*
- *New Zealand Ministry for the Environment – MfE Guidance for Voluntary Greenhouse Gas Reporting (2023)*
- *Auckland Council – Consumption Emissions Modelling 2023*
- *MOTU - Greenhouse Gas Emissions in New Zealand: A preliminary Consumption-Based Analysis 2014*
- *UK Department for Energy Security and Net Zero – Government greenhouse gas conversion factors (2023)*
- *U.S. Environmental Protection Agency- Emission Factors for Greenhouse Gas Inventories (2023)*
- *Toitū Envirocare – Emission factor derived internally – New Zealand*

Southern Cross Health Insurance

With you

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