



## SANTAM LIMITED (Santam) COAL POSITION STATEMENT

### INTRODUCTION

Santam is South Africa's leading general insurer and the largest in South Africa by premium size. Santam's purpose is to provide risk solutions for our clients. With more than 105 years of history in the insurance industry, Santam has played a valuable role in the economic and social development of South Africa. In continuing with our brand promise of insurance good and proper, we are committed to help build resilient societies and contribute towards reducing the risk protection gap.<sup>1</sup>

This statement outlines Santam's approach to underwriting coal, and it applies to the Group's exposure to coal within the South African market and outside the South African market including other jurisdictions as licensed for under the New-Re<sup>2</sup> joint venture and Sanlam Pan Africa arrangement (SPA General Insurance).

### BACKGROUND

The rapid and intensifying impacts of the changing climate have resulted in a global consensus in the international community on the need to address climate change. In December 2015, the Paris Agreement set the goal to limit global warming to less than 2°C above pre-industrial levels by the end of the 21<sup>st</sup> century and aimed to limit the increase to 1.5°C in the long term. The Intergovernmental Panel on Climate Change (IPCC), a United Nations body for assessing the science related to climate change, has repeatedly confirmed that human activities are the main cause of climate change. Furthermore, the IPCC states that the burning of thermal coal for energy is the single largest contributor to human-induced global temperature increase, accounting for about one-third of the more than 1°C temperature rise above pre-industrial levels already observed. Therefore, to minimise the concentration of greenhouse gas (GHG) emissions in the earth's atmosphere, the IPCC advocates for fossil-fuel-based energy generation to be drastically reduced in the coming decades<sup>3</sup>. The anticipated result of this is likely to be a halt in the building of new coal plants to generate electricity and the phasing out of the existing coal.

### THE SOUTH AFRICA CASE

Coal plays a vital role in the South African economy and is the primary energy source for electricity generation. In 2021, coal accounted for about 77% of the total primary energy supply and close to 85% of electricity generation<sup>4</sup>. Coal has been a critical part of South Africa's economy for decades. The relative lack of suitable alternatives to coal as an energy source means that the country's reliance on coal is unlikely to change significantly in the next decade. As a result of this, the energy sector is responsible for 80% of South Africa's greenhouse gas (GHG) emissions<sup>5</sup>. To achieve its Nationally Determined Contribution (NDC) commitments, meet its domestic policy targets and national development goals, whilst reducing the negative externalities associated with burning coal such as pollution and negative health effects, the country must transition away from coal. Moving away from coal, however, creates challenges for the country and the coal-rich Province, Mpumalanga. The country's rampant energy supply challenges, coupled with a high unemployment rate of over 40% and vast economic inequality represented by a Gini-coefficient of 0.63, now exacerbated by the Covid-19 pandemic, further highlight the broader socio-economic implications of abruptly transitioning away from coal. In response to this, whilst the country's Integrated Resource Plan (IRP) envisions coal to still play a significant role in the overall energy mix in the coming decade, in both its Low-Emission Development Strategy (LEDS)<sup>6</sup> and Just Transition Framework<sup>7</sup>, South Africa states its

<sup>1</sup> The Risk Protection Gap is defined as the difference between total economic losses and insured losses. It measures the extent to which losses are not covered by insurance.

<sup>2</sup> New-Re is a joint venture between Munich-Re Africa and Santam which allows selected Santam business units to use the reinsurer's Standard & Poor's ("S&P") AA- credit rating to write inwards international reinsurance business on New Re's license.

<sup>3</sup> <https://climateanalytics.org/publications/2019/coal-phase-out-insights-from-the-ipcc-special-report-on-15c-and-global-trends-since-2015/>

<sup>4</sup> <https://www.trade.gov/country-commercial-guides/south-africa-energy>

<sup>5</sup> [https://www.gov.za/sites/default/files/gcis\\_document/201802/npc-energy-paper.pdf](https://www.gov.za/sites/default/files/gcis_document/201802/npc-energy-paper.pdf)

<sup>6</sup> <https://unfccc.int/sites/default/files/resource/South%20Africa%27s%20Low%20Emission%20Development%20Strategy.pdf>

<sup>7</sup> <https://www.climatecommission.org.za/just-transition-framework>

intention to commit to net zero carbon emissions by 2050. Furthermore, through the National Planning Commission (NPC) and the Presidential Climate Commission (PCC), the South African government is engaging with multiple stakeholders to develop a long-term national vision for a just, low-carbon, and climate-resilient economy.

### **OUR CLIMATE CHANGE COMMITMENT**

In the Working Group I contribution to the Sixth Assessment Report released in 2021, the IPCC reiterated the imperative need to ramp-up global effort towards reducing emissions. Recognising the urgency required to address climate change and the complexity this brings, we support the Paris Agreement's long-term ambition to limit the global temperature rise below 2°C, and preferably to 1.5°C, compared to pre-industrial levels. Santam is committed to understanding the risk that the changing climate poses to its business and stakeholders and this necessitates that we continue to refine our climate change response to better understand and manage climate-related risks. Our climate response is actioned through various channels, including our membership to the United Nation's Principles for Sustainable Insurance (UN PSI), ClimateWise and inaugural adoption of the Task Force on Climate-related Financial Disclosure (TCFD) recommendations.

### **OUR APPROACH TO COAL**

As stated in our climate change position statement, Santam acknowledges the global policy commitments aimed at achieving net-zero carbon emissions by 2050<sup>8</sup>, which will be largely achieved through transitioning from fossil fuels to a low-carbon economy. As a signatory to the United Nations Framework Convention on Climate Change (UNFCCC) and Paris Agreement, the South African government has also committed to exploring pathways towards contributing its fair share to the global effort to move towards limiting the global temperature increase to 1.5°C by 2050. Whilst Santam supports the transition from a greenhouse gas intensive to a low-carbon economy, we also acknowledge that we operate in a market that remains heavily reliant on coal for power generation. Because of this, Santam strongly believes that a transition away from coal without careful planning will put many jobs and value chains at risk, further exacerbating the current socioeconomic challenges. For this reason, Santam advocates for and supports a gradual and just transition towards a low-carbon economy.

Acknowledging the decisions taken by our counterparts, particularly global reinsurers, and banks, to respectively reduce capacity and restrict financing for new thermal coal mines and coal-fired power stations; we commit to the following in our underwriting decisions for coal underwritten in South Africa and in other jurisdictions:

- i. We commit to working with all stakeholders i.e., employees, intermediaries, and clients to raise awareness and improve our understanding of climate change and coal.
- ii. We commit to working with South African regulators, government, and the South African Insurance Association (SAIA) to keep abreast with the latest climate-related policies relevant to our organisation.
- iii. We commit to gradually aligning our underwriting guidelines and standards with our reinsurers' transparency requirements around coal.
- iv. We commit to actively monitoring our exposure to coal, with the purpose of reducing it over time.

### **UNDERWRITING GUIDANCE BASED ON NEW-RE COAL DIRECTIVE**

Any inclusions and exclusions are subject to the New-Re thermal coal underwriting policy.

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<sup>8</sup> The term net emissions refer to the balance between the GHGs produced and those removed from the atmosphere through sinks including land, forests, and technology interventions. Net zero carbon dioxide emissions will be required by 2050, while net zero GHG emissions will need to be achieved by around 2070, to limit global average temperature increase to 1.5°C.

The definition of new thermal coal risks according to New-Re's underwriting directive means:

- i. New coal-fired power plants (not yet under construction as at 1 September 2018);
- ii. New thermal coal mining sites (as at 1 September 2018 no extraction of coal has taken place);  
and
- iii. New infrastructure projects in connection with and in support of i) and ii).

The above undertaking applies to all direct coverages and lines of business including:

- i. Planning, financing, and construction.
- ii. Operation.
- iii. Multi-location covers if such cover is mainly designed to protect one or more new coal plants/mining sites.

Note: New Re will take a strict approach to new thermal coal risks and such risks will not be taken on New Re paper.

Mandatory escalation process for approval:

*Any of the below potential exemptions to new thermal coal risks must be referred to the Chief Executive Officer: Santam Specialist Business for consideration and approval and, where necessary, to New Re for approval.*

Exemptions:

- I. Upgrade of existing coal-fired power plants:
  - a. Allowed: modernisation, revamp, additional components
  - b. Not allowed: additional units = new coal-fired plant
- II. Extension of existing thermal and metallurgic coal mining sites

## **APPROACH TO RENEWABLE ENERGY**

We provide insurance cover for the renewable energy sector in South Africa, the rest of Africa and in other emerging markets through our Specialist Business portfolio. We further commit to capacitate ourselves to provide more cover towards renewable energy projects.

Our commitment to taking active steps towards providing more cover for renewable energy is premised on our obligation as a leading insurer towards supporting the country's socioeconomic development objectives and national commitment to transition towards a low-carbon and net-zero economy by 2050. Furthermore, our commitment to renewable energy is consistent with the country's IRP which contemplates a massive investment in renewable energy over the next decade<sup>9</sup>.

## **ANNUAL REVIEW**

This policy will be reviewed annually to ensure that our position on underwriting coal remains aligned to the rapid changes occurring globally, regionally, and domestically.

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<sup>9</sup> [https://www.gov.za/sites/default/files/qcis\\_document/201912/42784gon1360.pdf](https://www.gov.za/sites/default/files/qcis_document/201912/42784gon1360.pdf)