NOVEMBER 2024

INVESTOR MEMO: INTACT FINANCIAL CORPORATION'S PROGRESS ON NET ZERO

INVESTORS for PARIS COMPLIANCE

COMPANY OVERVIEW

**All currency is CAD unless otherwise stated*

As a leading actor in Canada's property and casualty (P&C) insurance industry, Intact Financial Corporation ('Intact', IFC:TO) has exposure to climate risk via both its underwriting and investment activities. These climate risks arise from extreme weather ('physical risks'), and from net-zero regulation, policy, evolving technology, and shifting customer demand ('transition risks'). Intact has recognized these as material risks to its business and made net-zero commitments to mitigate them. This memo will assess its progress in this regard.

As of December 31, 2023, Intact's invested assets totalled $37 billion which its subsidiary Intact Investment Management (IIM) manages.[1] As outlined in the report Playing with Fire, $736 million of this is invested in fossil fuels as of Q1 2024.

This memo evaluates Intact's net zero progress based on the following key categories:

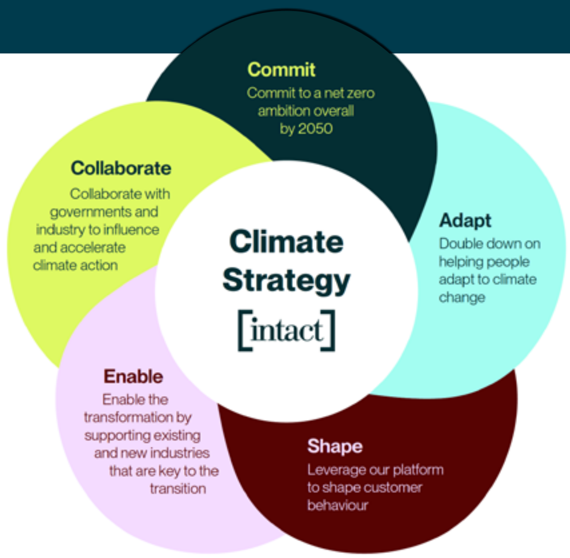
Cover photo by Raysonho @ Open Grid Scheduler / Grid Engine - Own work, CC0

1 Intact, 2023 Annual Report, at 48; Intact Investment Management, About us, (n.d.); IIM's AUM is mostly attributable to Intact's general account, with a small third party asset management business.

2 Intact, Climate Strategy, (n.d.).

Currently, Intact's climate strategy revolves around a five-part plan that focuses on:

1. The company's net zero commitment,
2. Helping people adapt to extreme weather,
3. Encouraging climate-friendly behaviour among customers,
4. Supporting existing and new industries key to the transition, and
5. Collaborating with governments and industry.[2]



Intact has made notable climate adaptation efforts, particularly through investments in nature-based solutions[3] and funding the Intact Centre on Climate Adaptation to enhance resiliency projects across Canada,the U.S., and the U.K.[4] While these efforts on adaptation are significant, gaps remain in Intact's efforts to mitigate its climate transition risks.

In the table below, Intact's progress on net zero is summarized.

2024 NET ZERO PROGRESS SUMMARY TABLE

		INTACT FINANCIAL CORPORATION
SETTING TARGETS & MEASURING PROGRESS		
Net zero target	*Investments*	100% of general account committed 3rd party asset management undisclosed
	Underwriting	No net zero commitment
Report absolute financed emissions	*Investments*	36% of general account disclosed 3rd party asset management undisclosed
	Underwriting	None disclosed
Interim targets	*Investments*	• By 2030, targeting 40% reduction in financed emissions intensity for 36% of investment portfolio (common shares, preferred shares and corporate bonds) by 2030, compared to a 2019 baseline • See engagement policy for further interim targets
	Underwriting	No interim targets set
POLICIES & ACTIVITIES TO REACH TARGETS		
Portfolio alignment: fossil fuel exclusion policies	*Investments*	Currently no exclusions, see engagement policy for potential exclusions
	Underwriting	• Arctic oil and gas exploration, extraction, and production. • Stand-alone oil sands accounts. • Thermal coal mining. • Utilities with over 25% of revenue from coal power in Canada and 30% in the U.K. & Ireland. *No fossil fuel expansion exclusion policy.*

3 Intact, Intact Financial Corporation announces five-part climate transition plan, (Apr, 2022).
4 Ibid.

POLICIES & ACTIVITIES TO REACH TARGETS CONT'D		
Client transformation: Escalating engagement policy	*Investments*	• Engage with top 20 emitters by 2025. • Assess transition plans if over 25% of revenue from thermal coal or top GHG-emitting oil and gas producers • Divest from coal companies not showing progress & from those without a plan to exit coal by 2035, though may invest in their green bonds. • Divest from oil and gas companies not showing progress by 2024
	Underwriting	Plan to review the transition plans of energy clients, though no timelines or escalation plan.
Climate solutions investment	*Investments*	No commitments related to mitigation
	Underwriting	Report some underwriting of individual renewables projects
Climate lobbying	*Underwriting & Investments*	Not disclosed

SETTING TARGETS AND MEASURING PROGRESS

TARGET SETTING

Intact has committed to net zero by 2050 for its general account and set an interim goal of at least a 40% reduction in the emissions intensity of 36% of its investments portfolio (common shares, preferred shares and corporate bonds) by 2030, compared to a 2019 baseline.[5]

Intact currently does not have a target for insurance-associated emissions.

FINANCED AND INSURANCE-ASSOCIATED EMISSIONS REPORTING

Intact started disclosing its investment emissions in 2022, covering approximately 36% of its total invested assets as of 2023.[6] Absolute investment emissions decreased by 13%, while the Weighted Average Carbon Intensity (WACI) decreased by 35% compared to a 2019 baseline.[7]

Intact does not yet disclose insurance-associated emissions, though these emissions will need to be measured by 2026 in line with the Office of the Superintendent of Financial Institution's climate risk guidance.[8] Intact has cited data quality issues as the main reason for lack of disclosure.

COMPLEMENTARY METRICS

Although Intact discloses reductions in emissions and WACI, it could also provide complementary metrics such as the value of premiums related to low-carbon energy and technology, the proportion of business lines with net-zero objectives, or the number of clients with science-based targets.[9] Intact previously disclosed the proportion of funding directed toward low-carbon energy but discontinued this citing the difficulty of accurately measuring the metric due to portfolio bundling.

5 Intact, 2023 Social Impact & ESG Report, at 56.
6 Ibid.
7 Ibid.
8 OSFI, Guideline B-15 - Climate Risk Management (March, 2023) at Annex 2-2.
9 Transition Plan Taskforce, Sector Summary, at 30-32.

POLICIES AND ACTIVITIES TO REACH TARGETS

PORTFOLIO ALIGNMENT: FOSSIL FUEL EXCLUSION POLICIES

INVESTMENTS

In Q1 2024, Intact had invested 10% of its common and preferred shares in fossil fuels, with a total of $736 million invested in fossil fuels at Q1 2024.[10] Intact currently has no exclusion policies for fossil fuel investments, though indicate that engagement escalation may lead to divestment, discussed in the Engagement section below.

Intact could follow the lead of Allianz, one of the largest global insurers, who states "Science and the IEA show that any exploration or development of new oil and gas fields, as well as use of unconventional practices are not only harmful for the environment but also neither needed in 1.5°C pathways, nor economically likely." For those reasons, Allianz committed, as of January 2023, not to invest in any expansion from its proprietary investment portfolio as well as property and casualty (P&C) insurance.[11]

While excluding expansion is best practice, other global insurers have certain restrictions on investments in fossil fuels, such as Aviva, who in 2022 divested from companies which make more than 5% of their revenue from coal unless they have signed up to the Science Based Target initiative.[12] While each company must work to have a robust transition plan, these individual policies are important components.

Fire in Jasper, Alberta, 2024
karyndecore/Instagram

10 Intact, Q1 Supplementary Information, at 16; 2% of total investments $36.8billion.
11 Allianz, Statement on oil and gas business models, (February, 2023).
12 Aviva, Aviva becomes the first major insurer worldwide to target Net Zero carbon by 2040, (March, 2021).

INSURANCE PORTFOLIO

For its insurance portfolio, Intact has stated the following exclusions to its risk appetite:

- Arctic oil and gas exploration, extraction, and production,
- Stand-alone oil sand accounts,
- Thermal coal mining, and
- Utilities with greater than 25% revenues from coal power generation in Canada and greater than 30% in U.K. & Ireland.

While these exclusions are significant and important, Intact does not currently exclude underwriting fossil fuel expansion projects, despite such projects being unaligned with net zero. Such an exclusion would bring Intact in line with leading insurers like Allianz, who, as stated above, have enacted policies against fossil fuel expansion,[13] and other major insurers such as Zurich,[14] Munich Re,[15] Suncorp,[16] Generali,[17] and more[18] who have committed to end or restrict underwriting for new oil and gas projects. Generali, Italy's largest insurer, no longer provides new policies for risks related to the midstream and downstream sectors of the oil and gas industry, which include liquified natural gas (LNG) terminals, pipelines, and gas-fired power plants.[19]

CLIENT AND INVESTEE TRANSFORMATION: ESCALATING ENGAGEMENT POLICIES

INVESTMENTS

Investor engagement is conducted via IIM, which has set an interim target by 2025 to engage with its top 20 emitters that account for over 50% of the emissions intensity in its common shares, preferred shares, and corporate bond portfolio.[20] IIM's position on coal[21] and position on oil and gas[22] outline that they assess the climate disclosure and transition plans for all companies in its investment universe that:

- Derive more than 25% of energy generation, revenue, or net income from thermal coal; or,
- Are included in the top GHG emitters from the oil and gas producers within its portfolio.

For existing holdings that exceed the coal thresholds, IIM evaluates energy transition plans based on public disclosures, targets, emission reduction initiatives, and investments. IIM has committed to divesting from companies under its coal policy if they fail to provide a satisfactory plan, including those without a plan to divest from coal assets by 2035, though it may still invest in green bonds from these companies.

13 Allianz, Statement on Oil and Gas (Feb, 2023).
14 Insurance Business, Zurich Insurance cancels underwriting new fossil fuel projects, (April, 2024).
15 Munich RE, New Oil & Gas investment / underwriting guidelines, (October, 2022).
16 Suncorp, Responsible underwriting, lending and investing,(n.d.).
17 Generali, Strategy on Climate Change, (June, 2022).
18 Insure our Future, Insurance Company Fossil Fuel Underwriting Policy Overview, (July, 2024).
19 Generali, Commitments to the environment and climate, (Oct, 2024).
20 Intact, 2023 Social Impact & ESG Report (Page 44).
21 Intact, Intact Investment Management Position on Coal Policy (Oct, 2020).
22 Intact, Intact Investment Management Position on Oil and Gas (April, 2022).

In 2022, IIM began its oil and gas engagement, identifying the top emitters by intensity and absolute emissions. IIM assesses the target's transition plans, focusing on Scope 1 and 2 emissions disclosure, 2050 net-zero ambitions, and climate governance. While Intact's engagement strategy lacks scope 3 assessment, the company has disclosed that the inclusion of scope 3 would not change which companies would be priority for engagement. IIM committed to engage with companies that had unsatisfactory transition plans, expecting improvements within 24 months. Those that fail to show progress by 2024 will be removed from IIM's investment universe. This has the makings of a comprehensive escalation engagement policy. We hope to see reporting of follow-through on this policy in IIM's 2024 annual report, or sooner, to ensure accountability.

INSURANCE PORTFOLIO

In its insurance portfolio, Intact states it will review the transition plans of energy clients, focusing on emissions disclosure, net zero ambitions and strategies, and climate governance. Intact will then engage with energy customers with unsatisfactory transition plans. While positive, this commitment lacks specificity in terms of time horizons for transition maturity, and escalating consequences for lack of progress. Effective engagement requires both a transparent assessment method and a time-bound escalation strategy.

CLIMATE SOLUTIONS INVESTING AND UNDERWRITING

INVESTMENTS

Intact and IIM have not set goals regarding investing in climate solutions related to mitigation. Most investment has been focused on adaptation. Such a commitment could mimic Aviva's commitment to invest £2.5 bn in low-carbon and renewable energy infrastructure and deliver £1bn of carbon transition financing by 2025.[23]

INSURANCE PORTFOLIO

Intact insures several low-emission energy projects, including bioenergy plants and wind farms in Canada, the U.S., and the U.K. The company has expressed its commitment to continue underwriting renewable energy projects, in part shown by hiring a President of Renewables and global vertical business line dedicated to capitalize on growing demand for renewable energy insurance.

As insurers reduce coverage in climate-vulnerable areas, this can create gaps in coverage for clean energy projects, slowing investment in the energy transition. While progress has been slow, some insurers are beginning to address this by producing policy statements committing to insure renewable projects. For example, Generali offers insurance that covers damage to renewable energy equipment[24] and Allianz supports standalone insurance for renewable energy projects.[25] Intact has the opportunity to lead in this space by setting clear targets for underwriting renewable energy projects.

23 Aviva, Aviva becomes the first major insurer worldwide to target Net Zero carbon by 2040, (March, 2021).

24 Generali, Strategy on Climate Change, (June, 2022).

25 Allianz, Statement on renewable / low-carbon energy, (February, 2023).

PUBLIC POLICY LOBBYING

While Intact selectively discloses some of its government and industry association lobbying efforts, it does not provide a clear policy on climate lobbying or whether the associations it engages with are aligned with climate goals.

In Canada, Intact's public records show the company lobbied as both an in-house corporation[26] and a consultant[27] on topics such as disaster financing, the National Adaptation Strategy, and earthquake awareness. Intact has also participated in the Sustainable Finance Action Council in Canada, Climate Wise in the U.K., and in Ireland its subsidiary RSA acted as Co-Chair of the Central Bank of Ireland Climate Risk & Sustainability Finance Forum Capacity Building Working Group.

However, while these roles are public, the specific positions that Intact has taken and the outcomes influenced by its lobbying efforts remain unclear. For example, in Canada, Intact works closely with the Insurance Bureau of Canada, specifically lobbying the government to develop a national flood insurance program, but does not show up in public debates about broader climate mitigation policies, including carbon pricing. This is significant given that a key part of Intact's five-part transition plan is to collaborate with governments to influence and accelerate climate action.[28]

While Intact has disclosed to Investors for Paris Compliance directly that all policy positions it takes are climate-positive, Intact could clarify its alignment with the *Global Standard on Responsible Corporate Climate Lobbying*[29] and complete its lobbying disclosures by detailing the positions it takes on key climate issues, both directly and through trade associations.

This would allow stakeholders to understand whether and how Intact is lobbying for policies that support its net zero commitments.

Toronto flooding, 2024 /Alternative-Waltz-65 / Via reddit.com

26 Office of the Commissioner of Lobbying Canada, 12-Month Lobbying Summary-In-house corporation, (May, 2024).
27 Office of the Commissioner of Lobbying Canada, 12-Month Lobbying Summary-Consultant, (April, 2024).
28 Intact, 2023 Social Impact & ESG Report, at page 49.
29 Responsible climate lobbying: The global standard, The Global Standard on Responsible Corporate Climate Lobbying, (n.d.).

RECOMMENDATIONS

1. **Fossil fuel expansion.** A significant gap for Intact – including IIM – to address is the lack of an investment and underwriting screen on fossil fuel expansion projects. As recognized by other global insurers, mitigating climate risks and fulfilling the company's net zero commitment requires, at a minimum, precluding activities that take us in the opposite direction to net zero.
2. **Escalating engagement.** While Intact has an escalation policy for its high-emitting investments including both coal and oil and gas assets, we expect the company to disclose the expected divestments in 2024. A time-bound, escalating engagement strategy could also be adopted for its insurance portfolios, similar to the approach used for its investments.
3. **Climate solutions investment and underwriting targets.** For climate solutions, Intact could set specific goals for investing in and underwriting credible climate mitigation initiatives.
4. **Lobbying alignment.** Finally, Intact could make a clear commitment to lobbying not just for climate adaptation policy, but also for climate mitigation policy, and align its disclosures with the Global Standard on Responsible Corporate Climate Lobbying.