Integration of Sustainability Risks in Mortgage Investments (Version 1)

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General Introduction (Current Page on ESG)

The way we conduct our business impacts the world around us, both today and in the future. Our business activities and day-to-day operations should therefore consistently integrate responses to environmental, social, and governance (ESG) issues, as these cannot be separated. At Achmea Mortgages, we believe that this integrated approach helps create long-term value for customers, employees, the company, partners, and society itself. Achmea Mortgages fulfills various roles as a company in society: as a business (and thus an employer) and as a (financial) service provider. These different roles ensure that ESG issues and themes emerge in various ways within our organization, depending on the role, the nature of the activity, the relationship with relevant parties, and, where applicable, the geographical region or sector.

ESG Strategy

In this context, Achmea Mortgages has increasingly emphasized strengthening its commitment to ESG. An authentic ESG strategy that is reflected in a company's investment solutions, as well as in investment and (data-driven) reporting processes, should be easily understood by existing institutional clients and appealing to prospects who prioritize ESG. Therefore, as asset managers, we must not only define our ESG strategy but do so in a way that aligns our activities and investment solutions with the needs that exist in the various roles we fulfill. The ESG strategy for Achmea Mortgages can be found here.

Sustainability Risks in Investments

Based on these strategies, we integrate sustainability risks into our investment decisions. A sustainability risk is the potential negative impact on the value of an investment due to an event or circumstance in the ecological, social, or governance domain. In the environmental context, this can relate to climate change, resource scarcity, and pollution. Social events may include issues like payment arrears on a mortgage. Governance relates to themes such as stakeholder engagement, corporate ethics, anti-corruption, prevention of money laundering, and executive compensation.

Types/Forms of Sustainability Risks

Sustainability risks can manifest in various forms. For example, climate change poses sustainability risks, such as extreme weather events resulting from climate change, including flooding from heavy rainfall, drought, heat, and flooding, which can damage buildings and their occupants.

This will increase the costs of maintaining or insuring these buildings and may lead to a decrease in their value. These are considered physical sustainability risks.

In addition to physical risks, transitional risks and liability risks can also be distinguished. Transitional risks are financial risks caused by increasing regulatory requirements regarding the reduction of CO_2 emissions from real estate and thus mortgage portfolios. Liability risks may arise when a company or investor makes more promises than it can fulfill or has taken insufficient action to increase sustainability. Furthermore, social factors can also influence investments. For instance, it is important to assist consumers in preventing arrears while aiming to maintain housing stability.

Mortgages & Sustainability Risks

Sustainability risks also play a role in mortgage investments. The primary risk associated with mortgage investments is the risk that a borrower cannot meet the mortgage payment obligations. Sustainability aspects are an integral part of managing this risk for mortgage investments.

The sustainability of a property reduces this risk in three ways:

1. Research has shown that a property with a favorable energy label sells for more and sells faster. This reduces the likelihood of issues for the homeowner and limits the risk for the investor. In a forced sale, a property with a more favorable energy label will yield a higher return, decreasing the chance that the principal cannot be repaid.
2. When consumers enhance their properties' sustainability, this also leads to an increase in property value. The increase in property value as collateral will lower the loan-to-value (LTV) ratio. A decrease in the LTV ratio may allow the mortgage to be valued at a lower spread, potentially resulting in a positive indirect outcome. For the consumer, this could lead to a lower mortgage interest rate and thus lower monthly payments.
3. Finally, enhancing the sustainability of the property also contributes to lower energy costs, reducing the total monthly payments for the consumer. This supports the affordability of the mortgage and thus lowers the risk of arrears and bankruptcies.

To mitigate transitional risks, Achmea Mortgages aims to achieve carbon neutrality in its mortgage portfolio by 2050. To reach this goal, we inform, activate, and incentivize consumers to implement energy-saving measures. Mitigating sustainability risks translates into lower payment arrears and higher returns in case of forced sales.

Since the sustainability of properties reduces the risks associated with mortgage investments, Achmea Mortgages encourages the greening of properties in its mortgage investments. We do this by:

- Providing consumers with insights into the sustainability options for their homes and encouraging them to enhance their properties' sustainability.
- Encouraging consumers to take energy-saving measures by offering financial contributions combined with the purchase of energy-saving tools through the climate shop.
- Informing consumers about financing options for sustainability measures during the advisory request.
- Offering "green" options, such as financing energy-saving facilities when purchasing and/or renovating a property.
- Providing discounts when financing a property with a green label or when making certain improvements that lead to a greener energy label.

Regarding liability risks related to communication and promises, processes have been established to ensure compliance with the guidelines of the AFM on sustainability claims. The sustainability measures implemented in the mortgage portfolios help mitigate liability risks from users.
From a regulatory perspective, it is mandatory to report on adverse effects related to mortgage investments. More information on the adverse effects of Achmea Mortgages can be found in our Statement on Adverse Effects (PAI).

Climate Risks

Physical climate risks, such as (the likelihood of) flooding, drought (e.g., foundation subsidence), heat, and water damage, fall under sustainability risks. Research estimates the effects of these risks on the affordability of the mortgage or the value of the collateral. Depreciation of the collateral or increases in mortgage costs due to additional recovery or prevention expenses negatively affect both the LTV ratio and the overall affordability of the mortgage.

Social Risks

Achmea Mortgages places great importance on customer-oriented service. Through the departments of Preventive Management and Special Management, customers gain insight and control over their financial situation and future. We strive to prevent payment issues through analysis and proactive customer contact based on AFM guidelines. In cases of payment arrears, we assist customers in finding a sustainable solution, acting in the best interest of the customer. For example, we may offer interest averaging to help customers meet their mortgage payments and avoid forced sales.

Based on average NIBUD standards, we work systematically on the affordability of mortgages, taking into account the smallest possible financial impact for our clients.

The key principles here are to prevent issues related to mortgage payments and/or affordability, to quickly contact the customer to identify payment problems, and to focus on housing retention.