

CASE STUDY
PING AN



Engagement objective: **Environmental**
Reporting against TCFD recommendations



Engagement objectives: **Strategy, risk and communication**
AI governance, Become a PRI signatory

Ping An has made substantial progress on managing climate change and disclosing its approach to AI governance. This case study explores how Hermes EOS has engaged with the company on these topics since 2017.

Background

Founded in 1988, Ping An Insurance Group Co of China Ltd (Ping An) is an integrated financial services provider dual listed in Hong Kong and Shanghai and headquartered in Shenzhen. It is a global systemically important insurer, with a focus on finance technology and systems to provide customers and internet users with innovative and simple products and services.

Built on the concept of managing risk, climate change presents the insurance industry with one of its biggest challenges yet. The increasing use of artificial intelligence (AI) in the sector is also surrounded by ethical implications, such as the potential amplification of inherent bias, discrimination against the disadvantaged, and insufficient customer consent on data collection and usage. These risks formed the basis of our engagement with Ping An. Given its investment value of nearly US\$420 billion, we believe that the integration of ESG factors will have substantial potential to create long-term value.

Sustainable Development Goals



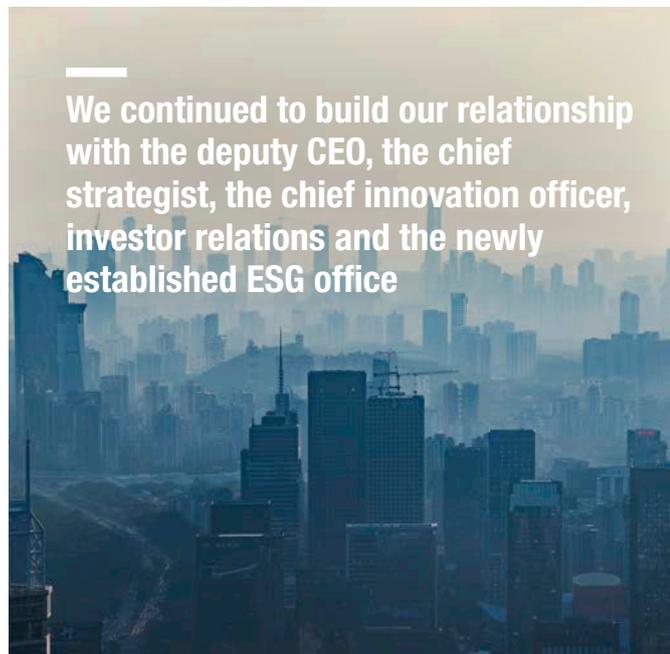
Our engagement

We initiated our engagement in 2017 with the chief strategist, as the company did not have a systematic framework on responsible investment, despite its progress on inclusive finance and green finance. We suggested that as a first step, it become a signatory to the Principles for Responsible Investment (PRI) and shared our experience as a founding signatory. We also shared insights on areas for improvement to create more long-term sustainable value. This included a strategy on climate change, ESG integration, product governance, AI applications and data governance.

We continued to build our relationship with the deputy CEO, the chief strategist, the chief innovation officer, investor relations and the newly established ESG office through regular calls and in-person meetings in London and the company's headquarters. In early 2019, we presented our arguments to the chief innovation officer and chief strategist on the need for the company to have responsible AI practices that meet investors' expectations at the Shenzhen headquarters. We shared industry examples of emerging best practices in AI governance and AI ethical principles, including our work behind our responsible AI and data governance [paper](https://www.hermes-investment.com/ukw/wp-content/uploads/2019/04/investors%E2%80%99-expectations-on-responsible-artificial-intelligence-and-data-governance.pdf).¹

¹ <https://www.hermes-investment.com/ukw/wp-content/uploads/2019/04/investors%E2%80%99-expectations-on-responsible-artificial-intelligence-and-data-governance.pdf>

On climate change, we encouraged the company to participate in key initiatives in the region to better understand best practices. In January 2019, we invited the company to observe a meeting of the China-UK pilot group on climate-related disclosure in Beijing, of which we are a member. To assist with its implementation of the guidelines of the Task Force on Climate-related Financial Disclosures (TCFD), we subsequently gave our view on the different data providers in the Chinese market, and shared our practice in assessing climate risks and opportunities.



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Changes at the company

In August 2019, following our recommendation, the company became the first Chinese asset owner signatory of the PRI, supported by the group chief financial officer, secretary of the board of directors and chief investment officer. It is committed to integrating ESG factors into its investment strategies and products, and has started implementing its own responsible investment policy framework.

During the same month, on AI ethics and data governance, it became one of the first major financial institutions globally to publish a set of AI ethical principles. It published the six key AI ethical issues, specific to its businesses, and the five key principles that guide applications. The co-CEO highlighted the positive impacts of its AI applications and the company's emphasis on information security and AI governance in its interim results announcement.



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We presented our arguments to the chief innovation officer and chief strategist on the need for the company to have responsible AI practices

Ping An accepted our recommendation to attend the China-UK pilot group meeting, hosted by the City of London and the People's Bank of China. Its attendance in January 2019, was commended by the China Banking and Insurance Regulatory Commission. Subsequently, it became a member of the pilot group, and is working towards reporting against the TCFD framework. Its involvement, including running analysis with the Paris Agreement Capital Transition Assessment (PACTA) tool and presenting a plan to set a 2030 coal reduction target and a programme of utility company engagement to other PRI Chinese signatories, was highly acknowledged by the PRI. In its 2019 interim results announcement, the chief financial officer gave an update on its ESG initiatives for the first time, including a low-carbon commitment. It has formulated its environmental target to reduce carbon emission intensity by 20% by 2030 and began participating in CDP disclosure this year.

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Next steps

Following the company's participation in climate initiatives and commitment to combat climate change, ESG integration and AI applications challenges, we continue to engage on the implementation and board oversight to ensure successful ESG integration throughout the business. One area of focus will be the alignment of the company's climate strategy and reporting with the TCFD recommendations. We believe the company has already set the groundwork to establish a robust climate policy and is building on a solid foundation for data-driven reporting. On AI governance, we continue to discuss its AI applications in its core strategy in healthcare and financial services, board level oversight, and the challenges of living up to its AI principles.

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Our goal is to help people invest better, retire better and create a better society for all.

Our investment solutions include:

Private markets

Infrastructure, private debt, private equity, commercial and residential real estate

High active share equities

Asia, global emerging markets, Europe, US, global, small and mid-cap and impact

Credit

Absolute return, global high yield, multi strategy, unconstrained, real estate debt and direct lending

Stewardship

Active engagement, advocacy, intelligent voting and sustainable development

Offices

London | Denmark | Dublin | Frankfurt | New York | Singapore

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Hermes EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. Hermes EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

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