

EMERGING RISKS

New risks or changes in previously identified risks that have their origin in the trends and that are difficult to understand. They can become strategic or functional risks, depending on their nature.

Emerging risks in development

1. Longevity

There has been a constant population increase in the world, leveraged mainly by the increase in people's life expectancy. In this scenario, there is an increase in the median age of the population, followed by disparate aging processes depending on the contexts of each region.

The global fertility rate is declining, which leads to a scenario of average fertility almost everywhere in the world. Under these postulates, aging/longevity would be the factor with the highest impact on population growth. Meanwhile, the young population tends to decrease in population structures, as part of the changes in family structures, with the consequent challenges that this implies, especially for productivity and the economy.

These demographic changes have different characteristics and speeds according to each region and country, with countries with higher levels of development usually having more advanced processes of aging and investment in the population pyramid.

Longevity brings about dynamic changes at each stage of life, as it tends to prolong and transform the expectations of the elderly.

There are different factors that affect the dynamics of the population pyramids:

- **Natural Aging:** The main aging factor is the impact of the passage of time on members who persist in the portfolios. This phenomenon is desirable since it implies greater

persistence. However, it must be complemented with other measures to cushion the impact.

- **Effect of Transfers:** Transfers have a positive effect on aging. This is because, in all business units operating in industries with high commercial activity, members are attracted with an average age of entry transfers lower than the average age of exit transfers.
- **Affiliation Effect:** Affiliations help to maintain the base of the pyramid, to mitigate the effects of natural aging (given that in industries where affiliations can be generated, less commercial activity is observed and this natural aging has a greater presence).

Impact

In 2020, the aging of the population in our pension business portfolios was studied. For this purpose, a population pyramid projection analysis was carried out for both members and contributors. The projection is based on a multiple decrease model (considering deaths, disability, outgoing transfers, and retirements), allowing income from transfers and affiliations. This projection represents specific characteristics of each pension fund, considering databases segmented by gender and age, for the behavior specified in the model described.

Population growth and longevity

Several of the most tangible effects are the extension of working life, greater pressure on care and social protection systems, as well as the development of new possibilities for goods and services, focused on a growing segment of the world's population.

2. Erosion of the social network

The social network or fabric is a collective link that, based on values, connects people in pursuit of common goals. It is an indicator of social capital expressed in terms of trust, sense of belonging, solidarity and cohesion. For its construction, it is necessary to promote social, economic, political, and cultural conditions that facilitate a comprehensive and equitable option in individual and group development. It is a fundamental element to guarantee the governance of a society.

The erosion of the social network occurs when there is an impairment in the shared values of societies, which represents a loss of the existing cultural links between citizens and their own environment. It is an unstable scenario where social agreements are fractured, collective priorities compete, and the social explosion is configured. Emotions such as mistrust, uncertainty and/or helplessness drive decisions and behaviors (individual and collective, peaceful and violent) that endanger the established social order, which represents a risk for the Company and society itself.

Latin America has presented symptoms of erosion of the social network since 2019, when the protests began and so far have traveled the streets of Argentina, Brazil, Colombia, Chile and Ecuador as a result of citizens demanding a common denominator: better opportunities and more equitable conditions.

Bearing in mind that Grupo SURA, through its subsidiaries, is present in 10 countries in this region, it is directly exposed to the social changes that may occur in these territories.

Various factors have eroded the social network, eroding trust in governments and public institutions:

- **Socioeconomic inequality**

Latin America shows clear income inequality. The richest 10% of the population earns 22 times more than the poorest 10%. This makes the region's Kuznets ratio, which measures the distance between rich and poor, more than double the average ratio for the poor in developed countries. In addition, the average Gini coefficient in the region is 0.46, while in developed countries it is 0.32, on average. In the region, on average, the richest 1% of the population holds 21% of the income of the entire economy, while the richest 10% receives more than half of the national income before taxes. In the case of developed countries, the richest 1% has on average 10% of the total national income before taxes and the richest 10% has approximately one third (Inter-American Development Bank, 2020).

This inequality has potential negative consequences for the stability of the economic and political systems within which our business activities are carried out.

- **Mistrust in political systems**

Inequality and corruption scandals are important sources of social discontent that drive citizen protests. When there are inequalities in access to public services that determine future social conditions of well-being, the perception of injustice grows, which fosters distrust in institutions and in the democratic system since it is perceived as a system incapable of dealing with this problem.

This factor has the potential to destabilize political systems, hence the ideological map of the region is currently being transformed as a result of the rise of left-wing governments that promise a more equitable distribution of wealth, better public services and safety nets. expanded society. These solutions imply changes in the economic models of each country and have a direct impact on the Company.

- **Political polarization**

This is an extreme manifestation of the difference of opinions of people against political currents different from their own.

The foregoing divided political perception prevents citizens from reaching a consensus on relevant issues such as economic, political, social, and environmental. In addition, it facilitates the support or resistance to government systems based on imaginaries and not on proven facts, which can result in geopolitical instability and create uncertain scenarios for capital investment.

- **Social unrest**

It is a feeling of reparation shared by a group of people and caused by measures perceived as unfair, which affect the population as a whole.

When the manifestations of social unrest materialize in a territory, the possibility of having a harmonious development in it is diminished, and a more arid panorama is also presented for the attainment of capital because as insecurity and conflicts increase economic instability increases and investor confidence in these territories decreases.

- **Violence**

According to the UNDP, in its report "Trapped: high inequality and low growth in Latin America and the Caribbean" (2021), Latin America is the most violent region on the planet, and warns that although inequality causes greater violence, violence also increases inequality because it disproportionately affects the most vulnerable populations, contributing to perpetuate their state of deprivation.

Violence limits growth through its impact on human capital (and productivity) and distorted public and private investment, as well as security spending and uncertainty about property rights.

Impact

The success of companies today not only depends on organizational behavior, understood as internal dynamics, but also on the conditions of the social network that impact their strategic direction. Hence the importance of understanding, monitoring and modeling the various scenarios where the Company's strategy has effects on the environment and/or vice versa.

In particular, for Grupo SURA and its subsidiaries, the erosion of the social network has been a subject of continuous reflection in recent years, understanding that the situations derived from this phenomenon have a direct impact on the performance and development of the company's objectives, which in turn represents strategic risk.

Understanding that the erosion of the social network creates adverse conditions for the development of the Company's strategy, based on the instability of the political and economic systems, we recognize that mistrust destroys social value for businesses and society itself because it generates panic among local and foreign investors, decreases demand, generates a greater perception of risk and this can lead to events that increase erosion such as unemployment or decreased income.

Risk exposure from business

SURA AM - Pensions and Investments

To the extent that the erosion of the social network increases, less investment, less employment and, therefore, fewer clients and contributions are projected.

Suramericana - Insurance

Social erosion decreases employment and leads to less income, less development, less demand and less consumption of this type of product.

Mitigations

To Grupo SURA, the complexity of current social dynamics requires a renewed understanding of social phenomena, capable of integrating different knowledge and variables in a systemic approach, which allows detecting and anticipating scenarios of social disruption where risks can materialize. This statement motivates our approach to the various social challenges faced by people and communities in Latin America, a region where our brand is present.

Being aware of this risk allows us to:

- Propose and support mitigation initiatives, in the short and medium-term, for the specific situations of the region in coherence with the fulfillment of our strategy*.
- Integrate indicators for follow-up and monitoring of the social environment to adapt as a Company to the changes that arise.
- Contribute from our businesses to the reconstruction of the social network, understanding that we cannot evolve as a company without contributing to society.
- Continue diversifying our portfolio in order to monitor the territories and make timely and strategic investment decisions.

***In our [Social Investment Framework Policy](#) we find an opportunity to mitigate the current effects of this emerging risk.**