



Recommendations for Managing Environmental,  
Social and Ethical Challenges in Business Transactions  
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**CRO FORUM**



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## Executive summary

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As a consequence of globalisation, public expectations have risen that businesses should behave responsibly and accountably in terms of minimizing their environmental and social footprint. Even though this footprint is low for the insurance industry due to the service nature of its operations, headline risk has nonetheless increased. Through its financial services, the insurance industry is a key enabler of most extractive, manufacturing and distribution activities by its corporate clients. Some of these activities can lead to unwanted environmental or social risks and ethical dilemmas. For example, think of the construction of a hydro-electric dam which, on one hand, implies major socio-economic transformation in a particular location, but that also destroys a pristine environment, reduces biodiversity, and forces resettlement of people. Even though the provision of insurance to the construction company is obviously legal, it can trigger harsh punitive measures in terms of vocal public disapproval. Consequently, our association with such projects as their “enablers” can potentially have a damaging effect on the stakeholder trust and reputation we have built over the past years and decades, as both individual companies and as the insurance sector in general.

This publication makes the case that environmental, social and ethical challenges (in short: sustainability challenges) inherent to business transactions require systematic detection, assessment and management. A set of six recommendations with appertaining possible action steps are proposed:

1. **Awareness of sustainability challenges in business transactions:** At all levels of insurance and investment activities, be cognizant of the environmental and social consequences of your transactions and their public perception.
2. **Methods to identify and assess sustainability issues relevant to your company:** Have methods and processes in place to identify and assess sustainability issues that are inherent to your portfolio.
3. **Definition of tolerance level:** At the board level, define the tolerance level for sustainability challenges and consider the respective potential consequences on integrity and reputation.
4. **Provision of clear guidance and empowerment of employees:** Give employees the appropriate tools to make transaction-by-transaction evaluations. Ensure that the inherent conflict between growth targets and sustainability goals is handled in a fair manner and that channels are in place to escalate issues as required.
5. **Governance processes, responsibility and ownership in Enterprise Risk Management:** Clearly define ownership, accountability and corresponding governance processes for the handling of sustainability aspects within risk management.
6. **Coherence across group activities and regions:** Strive to apply the same sustainability approach to various business activities (investment and insurance), lines of business and products and apply a “comply or explain” policy.

# Introduction

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Business operates in the broader framework of human society, which grants it the licence to operate and determines relevant rules by way of laws and regulation. These rules are the outcome of the trade-off between the positive impacts of business, such as wealth- and income-generation, and the possible negative consequences of business operations, such as environmental and social challenges.

Over the last two decades, global public expectations have emerged that businesses should behave responsibly and accountably in terms of minimizing their environmental and social footprint irrespective of whether the relevant local laws and regulation are weak, strong, or not properly enforced.

As insurers, our direct footprint might be limited. However, we can certainly play a significant role in critical projects and activities, such as large-scale industrial operations, the construction of massive infrastructure projects, or the transport of weapons to conflict-laden geographical areas. Even though each one of these activities may be perfectly legal, they can trigger harsh punitive measures in terms of public censure. Consequently, our association with such projects as their “enablers” can have a damaging effect on the stakeholder trust and reputation we have built over the past years and decades, as both individual companies and as the insurance sector in general. This type of regulation is also known as “soft law” and may in its effect simulate that of the punitive action of governments and regulators.

It is therefore sensible to take precautionary measures by raising awareness among the insurance industry on the potential sustainability impacts of business transactions and integrating these considerations into pre-emptive and holistic risk management processes. The ultimate outcome, we argue, should be an insurance industry that is fully aware of, and does consciously manage and account for, the sustainability impacts of its business transactions.

This report will facilitate a first step in this direction in that it outlines a set of [Recommendations for Managing Environmental, Social and Ethical Challenges in Business Transactions](#). We also provide possible actions on the implementation of these Recommendations as well as a few case studies.

In line with the explanation above, we limit the remit of this paper to business transactions related to an insurer’s risk underwriting – with main attention given to the corporate/industrial segment – and investment functions. Consequently this paper does not focus on environmental, social or ethical considerations in internal operational processes. It is understood that one first has to have one’s own house in order before scrutinising insured projects and activities. For example, with respect to procurement decisions, environmental (e.g. energy efficiency) and social criteria should apply; similarly, human resources policies should incorporate work-life balance considerations. Also on the product development and marketing side, careful attention to detail is warranted to avoid misselling or otherwise mismatching product features with client needs.

In light of the strategic relevance of the subject matter, the target audience of this report is Chief Risk Officers and their teams. This publication may also be of interest to Chief Underwriting Officers, Sustainability/Corporate Responsibility Managers, as well as distinct regulatory agencies.

## Background – Social, environmental and ethical challenges in the public eye

Many would agree with the Economist Intelligence Unit's findings that while a decade ago, the avoidance of financial loss was likely to have been the prime goal of risk management, today, protecting and enhancing reputation is ranked as the foremost reason to conduct risk management<sup>1</sup>. This is also echoed in the CRO Forum report "Operational Risk Management", which names reputation damage as one of the main types of loss from operational risk events. The critical distinction to other types of key insurance risks, such as volatility within an investment portfolio, or the risk of a certain hazard affecting a book of business, is that reputation risk cannot be hedged, diversified, or transferred. Subsequently, reducing it is the only way to manage it.

### The Value of Stakeholder Trust and Reputation

Stakeholder trust is an important element for an insurer for a variety of reasons: For example, a great part of our market value is derived from intangible assets, such as brand, expertise, institutional knowledge, or proprietary processes, which are more difficult to value than their tangible counterparts and therefore more reliant on trust than tangible assets. Many of them are based on human resources, whose build-up and maintenance are in themselves greatly influenced by trust and reputation. It is further clear that a company that sells a service based on the promise to provide cash payments in case of distress, is largely reliant on being trusted. According to a 2009 survey conducted by The Conference Board, the list of reasons to invest in trust and reputation is long, and reflects why companies have recently increased spending on the protection of their reputation.

While an array of sources can impact a company's reputation, this report is dedicated to one in particular: engaging in client transactions without taking the corresponding environmental or social impacts and their ethical components (hereafter referred to as "sustainability challenges") into account.

Over the past two decades, environmental and social awareness has been rising rapidly in society – a global phenomenon, though varying in degree, depending on location. This development is partially due to the increased stress our planet is under and partially because of ever faster and more efficient means of communications. The consequence is that business – the main user of natural resources – is under increased public scrutiny and has to keep pace with societal expectations: A company's impact on global commons such as the sea or atmosphere, scarce resources, environments, indigenous peoples, etc. is closely monitored. And the inability to defend the environmental/social/ethical legitimacy of a business may quickly result in consumer initiatives (e.g. boycotts), investor activism (e.g. shareholder proposals), NGO campaigns (e.g. demonstrations, media campaigns) or even the possibility of increased regulation, each of which creates friction and thus unnecessary cost to an enterprise.

Sustainability topics are often polarizing (e.g. environmental protection vs. economic growth vs. social development) and contentious. The challenge to handle them is made more problematic by the lack of a global legal framework helping international companies deal with the various issues in a coherent way; instead, there is a myriad of locally and culturally different perspectives.

Interestingly, starting in the early 2000s, the public focus widened from the companies actually causing the environmental or social problems to include those entities that finance them, including export credit agencies, development banks as well as commercial financial service providers. A high-profile case at the time was an environmental activists' campaign against Citibank for financing a project that included the clearing of rainforest<sup>2</sup>. This campaign was the catalyst that led to the development of the Equator Principles: a voluntary set of standards for banks determining, assessing and managing social and environmental risk in project financing, modelled after the performance standard of the International Finance Corporation (IFC), the private sector arm of the World Bank. Today, over 65 financial institutions have adopted the principles, making up nearly 90 percent of global private sector project finance. The banks' performance against the Equator Principles is regularly monitored by NGOs and selective media.

Increasingly, not only banks in their role as financiers, but also insurance companies as indemnifiers of losses are now perceived as "enablers" of sensitive projects and targeted by various special interest groups. Examples are the Burma UK Insurance Campaign from 2008 when insurers were accused of supporting the local dictatorship (see text box), and the animal rights campaign by a non-governmental organization (NGO) focusing – among others – on alleged insurers of a specific life-sciences company. Less public but nevertheless as important are bilateral inquiries by NGOs, social investment funds, and other special interest groups on topics such as climate change, human rights or the armament industry. Looking at the trend, it is very likely that in the future insurers will come under as much scrutiny as banks.

<sup>1</sup> Economist Intelligence Unit, "Reputation: Risk of Risks", 2005

<sup>2</sup> [http://ran.org/campaigns/global\\_finance/](http://ran.org/campaigns/global_finance/) and <http://www.peaceworkmagazine.org/pwork/0404/040416.htm>

**Case Study: “Insuring Repression”,  
the Burma Campaign UK, July 2008,  
AXA’s experience**

The Burma Campaign UK is a UK non-governmental organization (NGO) that is dedicated to campaigning for human rights and democracy in Myanmar (Burma).

The NGO’s 2008 report “Insuring Repression” lists companies that have provided insurance services to multinational companies operating in Burma: Fourteen of them were named as indeed having provided such insurance services, 203 companies were put on the “Shamed list” since they failed to clarify whether they provided insurance services to businesses operating in Burma, and 218 companies were assigned to the “Clean list” of companies since they had stated that they did not provide insurance services to companies in Burma.

AXA, like other companies, had to scan its entire book of business and the only link that was found with Burma was its International Health Plan that was covering persons traveling to Burma for support to NGO’s and advising on beneficial programs particularly related to agriculture. This was openly disclosed to The Burma Campaign UK and they found no objection to this business.

As a conclusion, transparency was key, but identifying all possible business ramifications in Myanmar proved complex at short notice.

For insurers domiciled in developed markets, one can identify three different sources of sustainability challenges:

- First, conducting business activities in countries with a less strong legal framework than the one existing in the insurer’s core markets (e.g. human rights topics).
- Second, differing cultural values among relevant markets (e.g. labour protection standards).
- Third, ethically charged issues within core markets (e.g. nuclear energy, GMO).

The first two categories expose the insurer especially to investor activism and NGO campaigns, whereas the third might quickly render the insurer vulnerable to conflicts with key customer groups or broadly-based consumer initiatives.

Finally, it is important to note that sustainability topics not only constitute major challenges for an insurer, but from a strategic perspective, they also open up new business opportunities such as the creation of dedicated new insurance products or access to new customer and investor groups. These opportunities, however, are not the subject of this paper.

# Recommendations for Managing Environmental, Social and Ethical Challenges in Business Transactions

As outlined above, societal expectations on an insurer's behaviour beyond legal compliance and the attendant reputation risk of not complying with these expectations should be an important input into business decision-making and risk-taking activities. A natural channel for these considerations to gain traction is a company's enterprise risk management program. Within such a framework, the topic should ideally permeate the entire fabric of the business, including strategic discussions on long-term risk-return management, as well as short-term day-to-day business practices.

## What the Recommendations are and what they are not

### 1. Underlying motivation

The remit of the Recommendations is limited to the core insurance processes of investment and underwriting activities. Their aim is to enhance general risk management practice and accountability with respect to sustainability challenges in business transactions. Having said this, it is important to note that we do not claim that a better understanding, assessment and management of sustainability issues will immediately and automatically improve underwriting performance or pricing. The connection between sustainability issues and technical underwriting considerations is interesting, albeit not the subject of this paper. Similarly, even though we advocate that the Recommendations be applied to both the insurance and the investment side of the business (particularly from a reputation risk point of view an holistic application is sensible) we do not wish to link enhanced investment results to consideration of environmental, social, and ethical criteria. Readers interested in these connections should consult the work of the UNEP FI Insurance Working Group<sup>3</sup> and the UN Principles for Responsible Investment (PRI)<sup>4</sup>.

### 2. Limitations

Although the bar continues to rise regarding insurers' accountability and responsibility, it also must be stressed that there are limits to such responsibility and hence to the implementation of the Recommendations. The UN Global Compact refers to a company's sphere of influence<sup>5</sup> as the natural delimitation of corporate responsibility, and the final report by the Special Representative of the UN Secretary-General on the issue of human rights and transnational corporations further elaborates "...companies cannot be held responsible for the human rights impacts of every entity over which they may have some influence, because this would include cases in which they were not a causal agent, direct or indirect, of the harm in question. Nor is it desirable to have companies act whenever they have influence... Asking companies to support human rights voluntarily where they have influence is one thing; but attributing responsibility to them on that basis alone is quite another."<sup>6</sup> While this quote is on human rights only, the limitation obviously also relates to other subject matters. "A company's commitment extends as far as its reasonable capability to influence events."<sup>7</sup> This influence is limited, for example, in deals where one holds a following co-insurance role, in treaty business (reinsurance) or in investments in externally managed funds. On the other hand, areas and lines of businesses where the insurer can exert influence and that are therefore most apt to the implementation of the Recommendations are those where risks can be identified, assessed and addressed individually. Examples include insurance for specific construction projects or industrial installations.

<sup>3</sup> [www.unepfi.org/work\\_streams/insurance/index.html](http://www.unepfi.org/work_streams/insurance/index.html). Report: "The global state of sustainable insurance – understanding and integrating environmental, social and governance factors in insurance."

<sup>4</sup> [www.unpri.org](http://www.unpri.org)

<sup>5</sup> <http://www.unglobalcompact.org/aboutthegc/thetenprinciples/index.html>

<sup>6</sup> Promotion and protection of all human rights, civil, political, economic, social and cultural rights, including the right to development. Protect, Respect and Remedy: A framework for Business and Human Rights. Report of the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises, John Ruggie. A/HRC/8/5, 7 April 2008; § 69

<sup>7</sup> UN Commissioner of Human Rights; Briefing Paper "The Global Compact and Human Rights: Understanding Sphere of Influence and Complicity"; p. 8

## The Recommendations

In the following, we make various suggestions on how an insurer might want to go about managing sustainability challenges. They constitute a selection of many possibilities and should not be perceived as the only valid solution.

### 1. Awareness of sustainability challenges in business transactions

At all levels of insurance and investment activities, be cognizant of the environmental and social consequences of your transactions and their public perception.

Without a general awareness of the sustainability challenges inherent in business transactions and their potential consequences for corporate reputation and success, the subsequent set of recommendations becomes void. This first recommendation is therefore the most important step toward any robust sustainability-related management system and underpins the entire set of recommendations.

What is called for is a broad-based education programme on sustainability challenges and the significant impacts of everyday operations and strategic decisions in this respect. Awareness-raising activities should be conducted throughout the organization, across all functions and levels. Especially the involvement of board and senior leadership is essential to the success of any such programme. Their understanding of the connections between strategy and its impact on reputation as well as their active commitment should therefore be fostered and secured first. The next step is to demonstrate to the business and functional unit leaders as well as their management teams the importance of considering the impact of sustainability challenges within their actions and decision-making.

Possible actions:

- Place the business case for sustainability – for example early risk detection, opportunities for product development, reputation risk management, etc. – on the agenda in strategic decision making committees such as boards of directors, risk, investment and underwriting committees, as well as audit bodies.
- Demonstrate to leaders and management teams in business units the potential impact of their decisions and transactions on corporate reputation and success.
- Develop and make available topic briefings on the various sustainability challenges that may affect your business. For each insurer, the scope of possibly applicable sustainability issues will be different, depending on their main lines of business, geographic reach and client base. Possible sources for such documents can be found in the section “Further Reading.”
- Incorporate sustainability topics in existing training courses such as underwriting and ethics trainings.
- Use recent events that have made negative headlines as examples to illustrate potential repercussions and make management understand the importance to act.

### 2. Methods to identify and assess sustainability issues relevant to your company

Have methods and processes in place to identify and assess sustainability issues that are inherent to your portfolio.

The public perception of sustainability topics and the attendant public expectations toward business are constantly evolving and will vary by region. Ongoing monitoring of media and stakeholder opinions is therefore required to determine which issues are of greatest interest to clients, special investors groups and other key insurance stakeholders.

Further, the insurer needs to be clear which of the identified sensitive sustainability issues is indeed relevant to its business. These will vary from case to case: Exposure to sustainability challenges is gained through a variety of factors such as the geographic reach of the offered insurance services, lines of business, types of insurance cover offered, and types of clients. A life insurer, for example, will be less concerned with the environmental damage caused by a specific oil drilling operation than the insurer who carries this specific industrial risk on its books. In general, however, it is fair to say that irrespective of the specific type of insurance business one is in, when the insured’s business or actions are not aligned with the insurer’s publicly communicated corporate values and principles, this can have a damaging effect on the insurer’s stakeholder trust.

Possible actions:

- Conduct a media survey: Which are the environmental, social, ethics-related issues that occupy the public? Complement the media view with an expert review of your company's sustainability/corporate responsibility team or external consultants.
- Determine the five sustainability topics most relevant to your company and strategy considering your product focus, geographic reach and growth plans, etc.
- Dialogue with NGOs for early alert on new issues, better understanding and joint development of potential solutions.
- Perform a sustainability-challenge exposure audit on your current portfolio of deals in industries which tend to be of higher exposure, such as oil & gas, mining, forestry, etc. Discuss the results with the affected business and risk managers. It is essential for the insurer to obtain a good understanding of its clients' activities and to regularly cross-check insured projects and activities in its portfolio against its own values. Those activities that have significant environmental, health or human rights impacts should be assessed jointly with the client.
- Develop a matrix mapping the probability on the sustainability challenge unfolding (pollution events, forced relocation, etc.) against the impact on your business.
- Establish and maintain an early warning system for emerging sustainability issues in order to anticipate changes in public perception.

### 3. Definition of tolerance level

At the board level, define the tolerance level for sustainability challenges and consider the respective potential consequences on integrity and reputation.

In order to define the risk appetite, one will need to determine what is at stake when a sustainability challenge negatively affects stakeholder perceptions. There are at least two elements to this: First, one needs to become clear on the practical implications of the core values of the company: When does a transaction correspond to these values and when is it beyond the ethical tolerance level? One may even try to attach a monetary value to the integrity of corporate principles and values. This value can be estimated by calculating the amount of possibly foregone business (i.e. business voluntarily given up since it did not correspond to the insurer's corporate principles and values). The other task at hand is to quantify the value of stakeholder trust and reputation, an equally daunting endeavour, where no one universally applicable approach exists (see text box, page 4).

The result of this exercise will be a clear understanding of which types of critical business transactions are considered acceptable and which are not. This understanding is the basis for the subsequent development of a group-wide policy on managing environmental, social and ethical aspects in business transactions.

Finally, one should remember that the reputation risk stemming from a perceived lack of integrity cannot be hedged, diversified, or transferred – it can only be managed by reducing exposure to sustainability challenges in the individual transactions. In certain cases, however, one may find that the commercial benefit of a transaction outweighs the associated reputation risks and subsequently pursue the deal. A decision like this, however, should be taken at levels higher than the day-to-day transaction management levels. It should obviously also never go below the defined minimum ethical threshold.

Possible actions:

- Discuss: How are corporate values being lived in your company? On a policy and company culture level, how are they expressed? How much is this integrity worth (possibly in terms of foregone business, for example)?
- Develop indicators for sustainability challenges in your transactions, each of them with a relevant alert and limit threshold. (Examples: Allegations of illegal logging, mining in a World Heritage Site, operations in a country with a weak regulatory environment, etc.)
- Aim to quantify the value of your company's reputation. Possible sources may be market research studies, financial analyst reports, media coverage, etc.
- Screen your portfolio for exposure to potential challenges and try to quantify the reputation impact of bad transactions.

#### Case Study: Swiss Re's Framework to Manage Sustainability Challenges

Swiss Re set up a framework to manage potential environmental, social and ethical aspects associated with business transactions. While the ultimate responsibility to manage the challenges remains with all Swiss Re employees, the framework facilitates their identification, mitigation or elimination.

The framework includes the following sector- and issue-specific policies: defence industry, oil & gas, mining, dams, animal testing, forestry & logging, nuclear weapons proliferation, and an overarching policy on human rights & environmental protection. They are implemented through company and country exclusions as well as a due diligence process for sustainability and/or ethics evaluations on a case-by-case basis. The latter is supported by tools such as issue-specific briefings and decision-trees. If necessary, an in-depth review by the internal expert team is conducted. Pre-defined criteria and qualitative standards trigger a mandatory review process (e.g. reinsurance for a dam in an ecologically sensitive environment). These criteria and standards are reviewed periodically to ensure they remain current and relevant.

#### 4. Provision of clear guidance and empowerment of employees

Give employees the appropriate tools to make transaction-by-transaction evaluations. Ensure that the inherent conflict between growth targets and sustainability goals is handled in a fair manner and that channels are in place to escalate issues as required.

Once business managers understand the relevant sustainability challenges, they can pro-actively and independently assess potential consequences for individual insurance or investment transactions. To ensure company-wide understanding of how to do this, detailed guidance is required. This could be built into robust due-diligence processes and could include a list of easily verifiable indicators that should lead to the inclusion of certain conditions into transactions. For example, if the object of insurance is a mining site in a country with a relatively weak regulatory body one could request the submission of an environmental and social impact assessment; or in the case of a logging operation, the insured would be asked to submit a company statement on illegal logging or an FSC<sup>8</sup> or other relevant certification; finally, if there are recent public protests and media coverage on human rights breaches of the insured, one might demand a relevant mitigation plan. Additionally, geographic or subject-related “no-go” areas, where the maintenance of business relationships is simply unacceptable, could be defined.

Unfortunately, despite good quality due diligence, the facts behind the merits and dangers of certain transactions often remain somewhat opaque. Nevertheless, a judgment call based on a systematic assessment process is likely to be better received both internally as well as externally than a mere “gut-feeling” without any factual or logical backing.

That said, it should be noted that the insights insurers and investment firms have into technical information can also be used in sustainability assessment processes. There are also a good number of external research providers specializing in environmental, social or ethical risks that can support these processes.

To avoid a conflict of interest for the deal manager, firms should consider sustainability challenges and the resulting dilemmas as part of employee incentive schemes. Balancing growth targets with effective risk management is not a new challenge, but both must be considered for the successful management of sustainability challenges.

Possible actions:

- Ensure that company corporate responsibility/sustainability/responsible investment policies are embedded in the enterprise risk management system.
- Develop a list of no-go criteria and decision-trees for each sustainability aspect to be considered as part of due diligence processes.
- Provide training sessions to transaction managers on how to assess sustainability challenges.
- Develop appropriate incentive schemes to ensure that employees will not be put at a disadvantage for addressing sustainability challenges.
- Ensure clear escalation processes are in place to report any issues that need further discussions/decisions.

#### 5. Governance processes, responsibility and ownership in Enterprise Risk Management

Clearly define ownership, accountability and corresponding governance processes for the handling of sustainability aspects within risk management.

Key to an effective management process for sustainability challenges in business transactions is that the ownership for the framework is clearly defined and embedded in the overall enterprise risk management system. This includes the assignment of responsibility for identifying the relevant sustainability topics, assessing their potential impact on the company, and the development and maintenance of principles and implementation guidelines. Also escalation procedures need to be in place should conflicts between business and risk management interests arise.

<sup>8</sup> Forest Stewardship Council – for further information, please visit [www.fsc.org](http://www.fsc.org).

### Case study: Governance Structure for Sustainability Challenges of a Multi-National Primary Insurer

- The management board approves the group policy on managing sustainability challenges: Definition of sustainability-related reputation risk strategy as well as limits and tolerance levels.
- A designated committee (e.g. "Risk and Compliance Committee") should be established at the group level that oversees all qualitative risk issues, such as legal, compliance, HR, IT and sustainability.
- Group risk management facilitates the risk dialogue between group and local entities. It defines sustainability risk management guidelines as well as reports and communicates sustainability risks consolidated at the group level. Group risk management is the second line of defense and ensures that responsibilities at the operational entity level are clearly defined with respect to sustainability risk management.
- Operational local entities, together with local risk management units, manage risks proactively according to group policies and limits. They report risk exposures to group risk management.

A possible approach for an internationally operating insurer with a decentralized risk management policy is to centrally define its tolerance level in major sustainability areas as precisely as possible. This can then be complemented by a parallel exercise on the local level for idiosyncratic local sustainability topics.

Clear local responsibilities would then need to be assigned for the transaction-specific identification of sustainability challenges, their assessment and corresponding decision-making within the governance structure for local business transactions. Business decisions which could potentially have a significant impact beyond the local entity, but for which no tolerance level has been defined centrally, would need to be escalated to the company's headquarters for ultimate decision making.

Possible actions:

- Assign ownership for the entire process of managing sustainability challenges: identification, assessment, mitigation, documentation, reporting and review.
- Form an expert committee or a business unit with the mandate to advise on sustainability challenges.
- Design a governance process for the escalation of individual cases.

## 6. Coherence across group activities and regions

Strive to apply the same sustainability approach to various business activities (investment and insurance), lines of business and products and apply a "comply or explain" policy.

As highlighted on page 6, there are limitations to the application of transaction-related sustainability management across an entire company. There are good reasons why sustainability challenges can either be not identified or not addressed in certain transactions. However, these should be stated explicitly and agreed upon by both risk and transaction management.

From a reputation risk angle, the application of the Recommendations to both insurance and investment is crucial. This is because from the perspective of many stakeholders, it is irrelevant in which way the insurer is associated with the perceived sustainability issue.

Possible actions:

- Be clear on the extent to which sustainability challenges can be effectively taken into account within different product types and lines of businesses. Make a final decision at the board level.
- Consider different ways of implementing sustainability management specifically within investment activities: Conceivable actions include the development of a proxy voting policy for the insurer's proprietary equity investments. This could be accompanied by active engagement and dialogue with the respective companies on specific environmental, social or ethical concerns. An option is of course to "vote with your feet", i.e. to divest if the investment is in conflict with your company's values or brand, or if your concerns are not being addressed within a given time frame.

## Conclusion

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The demand for greater transparency and accountability on a company's non-financial impacts is rising. This intensifying scrutiny coupled with an increasingly rapid dissemination of news and opinions calls for a more systematic way of handling those environmental, social or ethical issues that occupy our key stakeholders. The main goal of the [Recommendations for Managing Environmental, Social and Ethical Challenges in Business Transactions](#) is to assist insurance providers in the first step to becoming more aware of their indirect impacts and to provide guidance with respect to handling them. They describe possible best practice risk management measures and therefore do not represent new standard or minimum requirements.

This is only the beginning of the learning process. It is our aim to take the discussion further within the CRO Forum through proposing various follow-on activities, some of which are listed below:

- The possible development of benchmarks/performance standards that assist individual insurance companies to assess sustainability challenges inherent in business transactions.
- Generating new opportunities for common learning on the integration of sustainability considerations into insurance/investment decision making, such as fireside chats and workshops.
- The development of one approach within the CRO Forum with respect to handling sustainability challenges in order to facilitate dialogue with key stakeholders.

## Further Reading

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### **Business and Sustainability**

- The Universal Declaration on Human Rights  
<http://www.un.org/en/documents/udhr/>
- ILO International Labour Standards  
[http://www.ilo.org/global/What\\_we\\_do/InternationalLabourStandards/langen/index.htm](http://www.ilo.org/global/What_we_do/InternationalLabourStandards/langen/index.htm)
- OECD Guidelines for Multinational Enterprises  
[http://www.oecd.org/department/0,3355,en\\_2649\\_34889\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/department/0,3355,en_2649_34889_1_1_1_1_1,00.html)
- The 10 Principles of the UN Global Compact  
<http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html>

### **Financial Service Providers Initiatives on Sustainability Management**

- UNEP FI Insurance Working Group  
[http://www.unepfi.org/work\\_streams/insurance/index.html](http://www.unepfi.org/work_streams/insurance/index.html)
- UNEP FI Principles for Responsible Investment  
<http://www.unpri.org/>
- Equator Principles  
<http://www.equator-principles.com/>
- Close the Gap – BankTrack (NGO): Monitoring banks' performance  
[http://www.banktrack.org/show/focus/close\\_the\\_gap](http://www.banktrack.org/show/focus/close_the_gap)

### **Industry Initiatives on Sustainability Management**

#### Cross-Industry

- World Business Council for Sustainable Development  
<http://www.wbcsd.org/>

#### Agriculture and Animal Products

- Forest Stewardship Council  
<http://www.fsc.org/>
- Programme for the Endorsement of Forest Certification Schemes  
<http://www.pefc.org/>
- Roundtable on Sustainable Palm Oil  
<http://www.rspo.org/>
- Marine Stewardship Council  
<http://www.msc.org/>

#### Mining and Natural Resources

- Extractive Industries Transparency Initiative  
<http://eitransparency.org/>
- International Council on Mining and Metals  
<http://www.icmm.com/>
- The International Cyanide Management Code  
<http://www.cyanidecode.org/>



## Recent publications of the CRO Forum

Extrapolation of Market Data  
August 2010

Calibration recommendation for the correlations in the Solvency II standard formula  
December 2009

Calibration Principles  
May 2009

Internal Model Admissibility  
April 2009

Insurance Risk Management Response to the Crisis  
April 2009

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