

EBRD's Environmental & Social (E&S) Risk Management Procedures for Insurance

Any EBRD partner Financial Intermediary (FI) must have clearly defined environmental and social management systems in place, commensurate with the nature of the FI and the level of environmental and social risks associated with its business activities and consistent with EBRD's Performance Requirement 9.

Introduction

These Procedures apply to the portfolio of policies that is funded with the proceeds of the EBRD loan. The objectives of the E&S risk management procedures for insurance are to:

- Support FIs to meet EBRD requirements to manage environmental and social risks in business activities; and
- Provide FIs with step-by-step guidance on identifying, assessing and managing E&S risks with respect to insurance products.

E&S risk assessment procedures should be integrated into the FI's standard procedures for assessing insurance applications.

Scope of Application

These E&S risk management procedures only apply to commercial insurance applications.

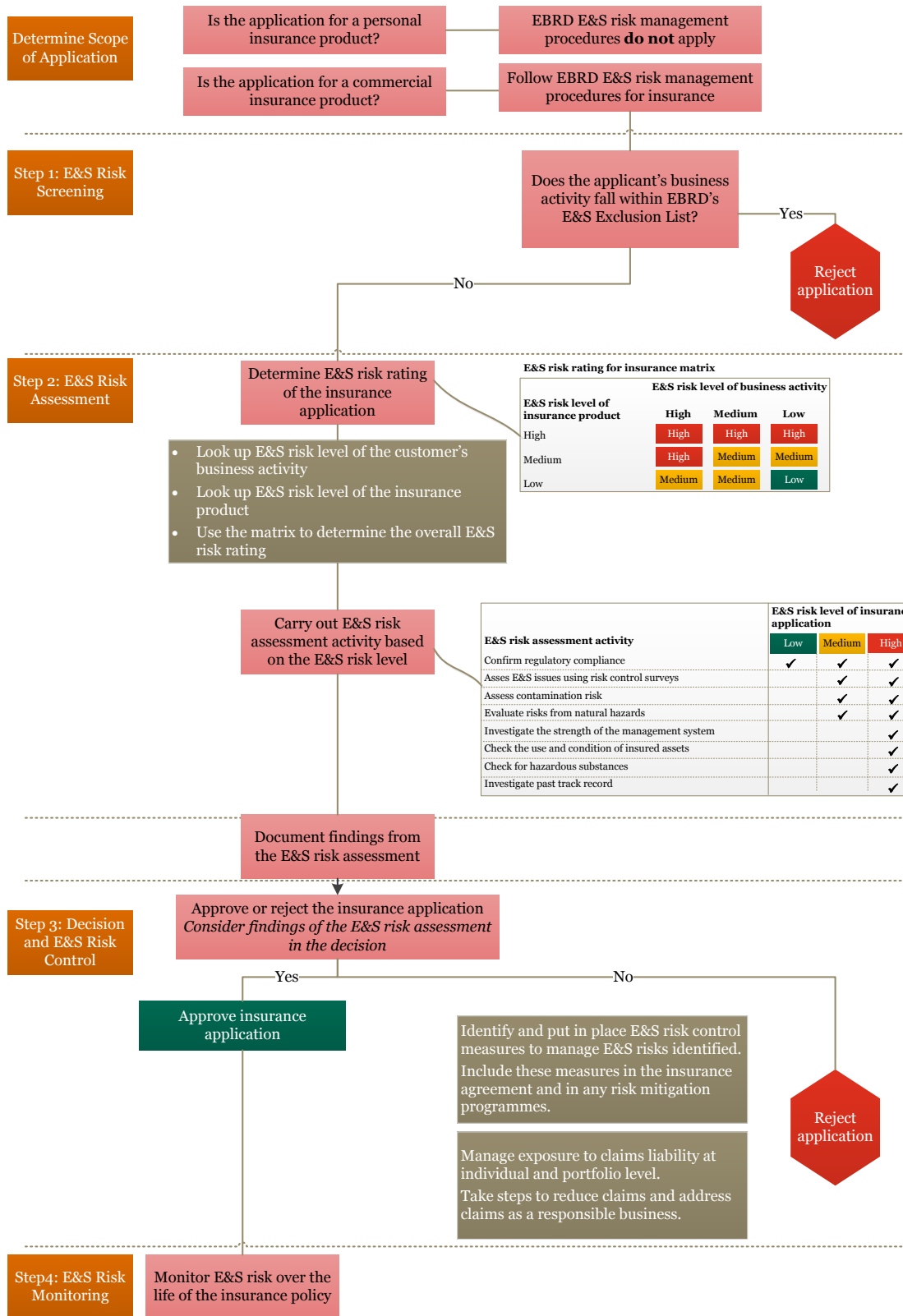
EBRD does not require E&S risk management procedures to be applied to personal insurance products.

Where FIs use revenues from insurance premiums to invest in shares, bonds or other investment products, refer to EBRD's E&S risk management procedures for Equity Investments.

Summary

The diagram below summarises the E&S risk management procedures for insurance. Detailed guidance is provided for each step outlined below.

Flow Chart Management Procedures for Insurance



Step 1: E&S Risk Screening

1.1 Screen against EBRD's E&S Exclusion List

- Screen the applicant's business activity against EBRD's E&S Exclusion List (refer to Annex I of this document).
- If the applicant is involved in any activity listed here, reject the application.

Further Guidance

What is EBRD's E&S Exclusion List?

- EBRD's E&S Exclusion List contains activities that are excluded under all circumstances because they are illegal or severely restricted under national or international law.

Step 2: E&S Risk Assessment

2.1 Determine the E&S risk rating

- The E&S risk rating is determined by the two main drivers of E&S risk in insurance – E&S risk associated with the applicant's business activities and the type of insurance product.
- First, identify the inherent E&S risk level of the applicant's activities. Refer to EBRD's E&S Risk Categorisation List and look up the company's business activity. If the separate environmental and social risk levels differ, take the highest as the overall E&S risk level.
- Next, identify the E&S risk level of the insurance product by referring to the 'E&S risks in common insurance products' table provided by EBRD (see below).
- Once the E&S risk level of the business activity and the insurance product has been identified, use the matrix provided by EBRD to determine the E&S risk rating of the insurance transaction.
- The E&S risk rating determines the type of E&S risk assessment FIs need to undertake.

E&S risks in common insurance products

E&S risk level	Type of insurance product
Low	<ul style="list-style-type: none">▪ Motor insurance▪ Office insurance▪ Directors and officers liability insurance▪ Insurance for retail shops (<i>e.g. newspaper agents, grocers, etc.</i>)
Medium	<ul style="list-style-type: none">▪ Property insurance (<i>commercial properties such as office buildings</i>) refer to EBRD's E&S risk management procedures for mortgage lending▪ Fire insurance (<i>for commercial properties such as office buildings. This may be covered under property insurance</i>)▪ Livestock insurance▪ Business interruption insurance (<i>contingent on insured having other appropriate insurance e.g. property insurance, machinery breakdown insurance etc.</i>)▪ Machinery breakdown insurance

	<ul style="list-style-type: none"> ▪ Professional indemnity insurance (e.g. for medical practitioners, architects) ▪ Employee compensation insurance ▪ Contractors' liability insurance ▪ Political risk insurance ▪ Tradesmen insurance (e.g. for small business owners in manual occupations) ▪ Landlord insurance (e.g. for owners of residential or commercial property)
High	<ul style="list-style-type: none"> ▪ Property insurance (for industrial properties such as manufacturing plants. It may cover a range of risks such as flood, fire, contents and fixtures) refer to EBRD's E&S risk management procedures ▪ Fire insurance (for industrial properties such as manufacturing plants. This may be covered under property insurance) ▪ Flood insurance (can be as part of property insurance or separate) ▪ Construction/erection all risk (loss, damage and legal liability as a result of construction or erection) ▪ Workers compensation/employers liability/social security (the way the claim is settled will vary) ▪ Marine insurance (e.g. cargo and vessels) ▪ Public liability insurance (e.g. against accidents, injuries, sudden releases of pollution, death of members of the public or damage to property) ▪ Product liability insurance (e.g. insurance in the case of faulty goods)

Matrix to determine E&S risk level of insurance application

E&S risk level of insurance product	E&S risk level of business activity		
	High	Medium	Low
High	High	High	High
Medium	High	Medium	Medium
Low	Medium	Medium	Low

Further Guidance

What is the E&S risk categorisation list?

- This is an index of business activities with corresponding environmental, and separately, social risk levels of high, medium or low. It can be accessed via the EBRD E&S Risk Management Manual for FIs (e-Manual).

What should I do if my applicant's business activity is not on the E&S Risk Categorisation List?

- If the applicant's exact activity cannot be found, use the nearest similar business activity.

What if I am providing an environmental or health and safety insurance product?

- Refer the transaction to EBRD if the FI is providing insurance products that focus on environmental or health and safety, such as environmental impairment liability or occupational health and safety cover. EBRD will advise on the type of E&S risk assessment required for such transactions.
- Seek EBRD's advice before offering any environmental impairment liability or occupational health and safety insurance products.

What if I am providing an insurance product that is not listed in EBRD's table?

- Seek EBRD's advice before offering any insurance product that is not listed in the EBRD table.

2.2 Assess E&S risks based on the risk rating

The table below summarises the E&S risk assessment activities to carry out for low, medium and high E&S risk level insurance applications.

E&S risk assessment activity	E&S risk level of insurance application		
	Low	Medium	High
Confirm regulatory compliance of the beneficiary	√	√	√
Assess E&S issues using risk control surveys		√	√
Specific issues to consider in risk control surveys (as applicable to the insurance cover concerned)			
Assess contamination risk (if applicable)		√	√
Evaluate risks from natural hazards (if applicable)		√	√
Investigate the strength of the E&S risk management system			√
Check the use and condition of insured assets (if applicable)			√
Check for hazardous substances (if applicable)			√
Investigate past track record			√

Confirm regulatory compliance

- Require applicants to confirm their compliance with relevant E&S laws, regulations and standards.
- Applicants should confirm this in the insurance policy application and when signing the insurance agreement. The insurance policy agreement should require compliance with all relevant E&S laws and regulations.

Assess E&S issues using risk control surveys

- Assess E&S issues relevant to the applicant as part of the risk control surveys that are used to determine baseline risk.
- Use EBRD's Sub-sectoral Environmental and Social Guidelines to identify E&S issues of relevance to various business sectors.

Specific E&S issues to consider during the risk control surveys

Assess the following E&S issues as applicable to the type of insurance coverage being considered:

- *Contamination risk:*
 - Assess property considered for insurance for the presence of, or potential for, pollution of land and groundwater.
 - Investigate contamination risk from current activities, previous uses of the site, and neighbouring activities.
- *Evaluate risks from natural hazards:*
 - Evaluate assets or activities being insured for potential damage from natural hazards such as floods, coastal erosion, severe weather, land slip and seismic activity.
 - Check any past damage from such events when establishing the baseline for insurance cover.
 - Consider the likelihood of future extreme weather events due to climate change.
- *Investigate the strength of the E&S risk management system*
 - Engage with the company's management to assess awareness of E&S issues related to the asset or activity to be insured, and whether these are managed effectively.
- *Check the use and condition of insured assets*
 - Verify that relevant licences and permits are in place and that the asset is being used for the purpose for which it was intended.
 - Confirm that the assets are being used appropriately, the current condition of these assets and the quality of maintenance and upgrade programmes in place.
- *Check for hazardous substances*
 - Check for the presence of toxic, flammable, corrosive, explosive or banned substances and the risk any such substances may pose to the insured asset or activity. This is especially important for fire insurance cover.
- *Investigate past track record*
 - Look for past liabilities or ongoing disputes related to E&S issues, such as prosecutions and fines for pollution, health and safety incidents or other E&S issues.
 - Check for past incidents that are likely to cause environmental damage or injury to people in the future.

Document the results from the E&S risk assessment

- Record the findings, including any measures identified to manage E&S risks.

Further Guidance

How can I find out more about the E&S issues relevant to a potential insurance applicant?

- EBRD's Sub-sectoral Environmental and Social Guidelines provide an overview of E&S issues relevant to a number of business sectors and good practice measures for managing these issues. These guidelines can be accessed via the EBRD E&S Risk Management Manual (e-Manual).

Who should carry out the risk control survey?

- Risk control surveys should be carried out by qualified and licensed professionals, who may be employed by the FI or may be working for specialist firms.
- In some cases, it may be necessary to employ specialist surveyors with expertise in a particular sector or specific E&S issues.

What should FIs do if contamination is found?

- The importance of contamination will depend upon the insurance product concerned. For example, a requirement for on-site remediation of contamination will have implications for business continuity insurance, while migrating contamination may impact public liability cover. Some chemical contaminants may attack the fabric of a building, with implications for buildings insurance cover, while certain other contaminants can be hazardous to health (e.g. asbestos), affecting employee compensation insurance.
- If contamination is found, employ specialist surveyors to assess the contamination, make recommendations for limits on insurance cover and identify improvements the company should make to limit environmental impacts on its own or neighbours' properties, public land or water bodies.

Step 3: Decision and E&S Risk Control

3.1 Decide to accept or reject the insurance application

- Assess the E&S risks identified and decide whether to approve or reject the insurance application from an E&S risk perspective.
 - Reject the application if significant E&S risks have been found and the applicant is unable or unwilling to mitigate the risks.
 - Consider approving the application from an E&S risk perspective if E&S risks do not unacceptably raise the likelihood of a claim, present a significant threat to the applicant's ability to meet its premium payments and/or the applicant agrees to E&S risk control measures.
- Approval of the insurance policy should not unduly expose EBRD to a risk of direct liability, or expose the FI or EBRD to the risk of reputational damage. ¹

¹ See Article 12(4) of the Agreement Establish the EBRD

3.2 *Put in place appropriate E&S risk control measures*

- If the insurance policy is approved, identify measures to control any E&S risks identified. Agree these with the applicant and incorporate as conditions into the insurance agreement.
- Include agreed E&S risk control measures in any risk mitigation programme the FI develops for the applicant to address other non-E&S related risks.
- Additional measures to control E&S risks may include any of the following:
 - Limit or exclude coverage of specific E&S risk issues (for instance, where the applicant is not managing these issues effectively).
 - Limit the geographical coverage of policy (e.g. where E&S risk is particularly high for parts of the company's operations).
 - Limit the term of the policy.
 - Apply appropriate deductibles or excesses .
 - Increase the policy premium.
 - Amend standard policy clauses to include specific E&S risk issues.

3.3 *Managing E&S Risks at an individual policy level and at a portfolio level*

Managing E&S risks at both individual policy and portfolio levels can help insurers reduce claims and respond to risks more effectively.

Manage net exposure to claims liability

- In managing E&S risk at an individual policy level, there are factors that influence FIs' net exposure to claims liability. Such factors include:
 - **Using reinsurance** – Check for any E&S related exclusions or restrictions in reinsurance contracts and reflect these in the FI's own policies.
 - **Risk pricing and loss ratios** - Regularly review risk pricing and loss ratios and consider the influence of E&S risk on these. If E&S risks are not assessed appropriately, FIs may be taking on liabilities that they should exclude from policy cover, thereby increasing their loss ratio.
 - **The term of the policy** - The term of the policy determines the length of time an FI is exposed to the claims liability and any associated E&S risk factors.

Managing claims effectively and responsibly

- Strive to reduce exposure to E&S risks by managing claims effectively and responsibly.
- Analyse the causes of claims and identify any E&S issues that lead to claims. Look to reduce claims through improved risk assessment and/or educating and incentivising applicants to better practices through risk mitigation programmes.
- In managing claims, act in a responsible manner by dealing with claims efficiently and fairly.

Managing portfolio level risk

- It is important to understand the aggregation of E&S risk exposure at a portfolio level.
- To manage portfolio level risk, evaluate the overall exposure to higher E&S risk insurance products and business sectors.
- Consider emerging E&S trends such as the impacts of climate change on insurance claims. In recent years, an increase in the frequency and severity of storms and floods has led to a rise in insurance claims and significant losses for insurers around the world.
- Check that any E&S exclusions in reinsurance contracts are reflected in the FI's own policies.

Step 4: E&S Risk Monitoring

- Monitor the insured's business for E&S risks, as they may change during the life of the policy.
- Monitoring for E&S risks can take place alongside standard insurance policy reviews.
- There are two areas to consider when monitoring E&S risks:
 - Events or changes that could present new or increased E&S risks.
 - Applicants' progress in meeting agreed E&S risk control measures.

What events or changes should FIs look out for when monitoring insurance policies for E&S risk?

Events or changes that could raise E&S risks in an insurance policy include:

- Change in the use of the insured property (e.g. changes to products sold, raw materials, wastes emitted).
- Regulatory investigations, fines or penalties imposed on the property.
- Public complaints or adverse media reports.
- Accidents or incidents causing significant damage to the environment or human health and safety.
- Amendments to relevant E&S laws and regulations, or to the level of enforcement.
- New developments or changes in land / property use, on adjacent land.

What should FIs do if an applicant is not meeting agreed E&S risk control measures?

- Engage in discussions to address areas of non-compliance.
- Consider terminating the insurance policy if necessary.

Reporting to EBRD

Under the requirements of PR 9, an FI is required to report annually to EBRD on the implementation of its Environmental and Social Management System (ESMS) and the E&S performance of its portfolio.

The level of reporting required on a FI's portfolio depends on the nature of the contractual relationship with EBRD.

- If EBRD has an equity stake in the FI, the FI is required to report on the E&S risk management of its full portfolio of business activities.
- If EBRD does not have an equity stake in the FI, but provides, for example, a credit line, the FI is required to report on the E&S risk management of transactions carried out using EBRD financing.

EBRD recommends that FIs document E&S risk management activities on an ongoing basis in order to have easily accessible information for reporting.

Reporting format

The EBRD FI Sustainability Index is an online tool designed to help FIs understand and report on how they are responding to the E&S risks in their own operations and business activities, as required by EBRD's PR 9. The Index should be completed by the FI's Authorised Representative and submitted to EBRD. FI's should e-mail: ebrdsusindex@ebrd.com for access to the Index.

Annex I: EBRD Environmental and Social Exclusion List

EBRD will not knowingly finance, directly or indirectly, projects involving the following:

- (a) the production of or trade in any product or activity deemed illegal under host country (i.e. national) laws or regulations, or international conventions and agreements, or subject to international phase out or bans, such as:
 - (i) Production of or trade in products containing PCBs.²
 - (ii) Production of or trade in pharmaceuticals, pesticides/herbicides and other hazardous substances subject to international phase-outs or bans.³
 - (iii) Production of or trade in ozone depleting substances subject to international phase out.⁴
 - (iv) Trade in wildlife or production of or trade in wildlife products regulated under CITES.⁵
 - (v) Transboundary movements of waste prohibited under international law.⁶
- (b) Production or use of or trade in unbonded asbestos fibres or asbestos-containing products.
- (c) Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage.⁷
- (d) Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
- (e) Shipment of oil or other hazardous substances in tankers which do not comply with IMO requirements.⁸
- (f) Trade in goods without required export or import licenses or other evidence of authorization of transit from the relevant countries of export, import and, if applicable, transit.

² PCBs: Polychlorinated biphenyls are a group of highly toxic chemicals. PCBs are likely to be found in oil-filled electrical transformers, capacitors and switchgear dating from 1950-1985.

³ Reference documents are Council Regulation (EEC) No 2455/92 of 23 July 1992 Concerning the Export and Import of Certain Dangerous Chemicals, as amended from time to time; United Nations Consolidated List of Products whose Consumption and/or Sale have been Banned, Withdrawn, Severely Restricted or not Approved by Governments; Convention on the Prior Informed Consent Procedures for Certain Hazardous Chemicals and Pesticides in International Trade (Rotterdam Convention); Stockholm Convention on Persistent Organic Pollutants; World Health Organisation Recommended Classification of Pesticides by Hazard.

⁴ Ozone Depleting Substances (ODS): Chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicised 'ozone holes'. The Montreal Protocol on Substances that Deplete the Ozone Layer lists ODSs and their target reduction and phase out dates. A list of the chemical compounds regulated by the Montreal Protocol, which includes aerosols, refrigerants, foam blowing agents, solvents, and fire protection agents, together with details of signatory countries and phase out target dates, is available from the United Nations Environment Programme.

⁵ CITES: The Convention on International Trade in Endangered Species of Wild Fauna and Flora. A list of CITES listed species is available from the CITES secretariat.

⁶ Reference documents are: Regulation (EC) No 1013/2006 of 14 June 2006 on shipments of waste; Decision C(2001)107/Final of the OECD Council concerning the revision of Decision C(92)39/Final on the control of transboundary movements of wastes destined for recovery operations; Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal.

⁷ Relevant international conventions include: Convention on the Conservation of Migratory Species of Wild Animals (Bonn Convention); Convention on Wetlands of International Importance, especially as Waterfowl Habitat (Ramsar Convention); Convention on the Conservation of European Wildlife and Natural Habitats (Bern Convention); Convention Concerning the Protection of the World Cultural and Natural Heritage; Convention on Biological Diversity.

⁸ This includes: tankers which do not have all required International Convention for the Prevention of Pollution from Ships (MARPOL), International Convention for the Safety of Life at Sea (SOLAS) certificates (including, without limitation International Safety Management Code compliance), tankers blacklisted by the European Union or banned by the Paris Memorandum of Understanding on Port State Control (Paris MOU) and tankers due for phase out under MARPOL regulation 13G. No single hull tanker over 25 years old should be used.