

IUMI Policy Agenda

4. Environmental, Social and Governance (ESG) issues

Brief description

The business of marine insurers is to provide insurance cover against “named perils” or against “all risks”. Shareholders of insurance companies and members of mutuals expect the management to run the business in a sound and viable manner. The assureds expect insurers to be financially able to cover claims, and use insurance for this purpose as a risk management tool. The role of insurance companies is not to “police” clients’ behavior. To understand and mitigate the risks, insurers will perform risk assessments based on information available to them and offer risk mitigation and loss prevention services. *“The insurance industry’s core business is to understand, manage and carry risk”* (preamble of the UNEP FI Principles for Sustainable Insurance). However, with increasing importance attached to a forward-looking and sustainable business conduct, a growing number of insurers also take environmental, social and governance (ESG) factors into consideration during their decision-making process. Investors, regulators, and society at large are beginning to focus on the issue.

Several global initiatives and agreements have led to a rise in both public and business awareness of ESG issues. These include the United Nations Sustainable Development Goals (SDGs), the Paris Agreement on Climate Change, and the work of the Marine Environmental Protection Committee (MEPC) and the Sub-Committee for Pollution Prevention and Response (PPR) of the International Maritime Organization (IMO). In April 2018, IMO adopted an initial strategy on the reduction of greenhouse gas emissions from vessels. Specifically, an agreement was reached to reduce the total annual GHG emissions by at least 50 percent by 2050 compared to 2008. In December 2019, shipowners’ organisations submitted a proposal to establish an IMO GHG reduction research and development programme to accelerate this target. MEPC approved in November 2020 a measure demanding energy efficiency requirements on existing ships starting from 2023, and the introduction of carbon intensity targets for vessels that will become mandatory in 2026. A comprehensive assessment of the impact will be presented ahead of the expected adoption in June 2021.

The European Union is discussing an even more ambitious legislation. On 7 July 2020, the Environment Committee voted to include CO² emissions from the maritime sector in the EU Emissions Trading Systems. Part of the revenues are proposed to be used for an Ocean Fund to support innovative green technologies and protect the marine ecosystems. Binding requirements to reduce the annual average CO² emissions per transport work for all vessels by at least 40% by 2030 were also introduced. The proposals were adopted by the Plenary in September 2020, and a

proposal for a revised Emissions Trading System with the inclusion of shipping is expected in June 2021.

The growing pressure and urgency across all sectors of society to respond and find solutions to ESG issues has led to some rethinking within the marine insurance industry. Individual companies are reconsidering their targets and responsibilities beyond their core businesses to incorporate sustainability. These insurance companies work on a better understanding and overarching principles to identify and define ESG standards that align with their values and commitments as a company. This framework will also guide what information they will seek from clients and other third parties. Considerations may comprise aspects of underwriting, claims handling, loss prevention, investment strategies, recruitment and education. Acknowledging the importance of ESG issues for the industry, some insurance companies have already integrated ESG issues and principles into their corporate strategy and established reporting procedures to ensure compliance with the company's defined ESG standards.

In 2012, the United Nations Environmental Programme Financial Initiative (UNEP FI) launched the UNEP FI Principles for Sustainable Insurance. UNEP intend the four principles to serve as a global framework for the insurance industry to address ESG risks and opportunities. Their core content is

1. Embed environmental, social and governance issues relevant to our insurance business in the decision-making.
2. Work together with clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.
3. Work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.
4. Demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.

The Principles have led to one of the largest collaborative initiatives between the UN and the insurance industry—the PSI Initiative. Over 140 organisations worldwide have adopted the four Principles for Sustainable Insurance, including some insurers representing more than 25% of world premium volume. The purpose of the PSI Initiative is to better understand, prevent and reduce environmental, social and governance risks, and better manage opportunities to provide quality and reliable risk protection. In February 2020, IUMI became a supporting institution to the UNEP FI PSI.

In 2017, the UN agreed to start negotiations for a legally binding agreement developed as a part of the United Nations Convention on the law of the seas (UNCLOS); the Biodiversity Beyond National Jurisdiction (BBNJ) Agreement. The negotiations were scheduled to conclude in 2020, but due to delays in light of COVID-19 more time is needed.

In 2019, the UNEP FI launched the first guideline for “Underwriting environmental, social and governance risks in non-life insurance business” The guide is not intended as a formal standard which organizations are required to comply with or follow

directly; the guide is an optional support tool to help organizations grasp this wide-ranging topic, particularly those without any or fairly limited ESG expertise. The guideline was subject to a public consultation in 2019, and the full 1.0 version of the guide was published in June 2020. The aim is to update the guide on a yearly basis.

In February 2020, IUMI co-sponsored a paper to the IMO with a proposal to develop a guidance to address bribery and corruption in the maritime sector. A key objective in this work should be to align actions in the maritime sector with the UN Convention against Corruption (UNCAC). The Facilitation Committee (FAL 44) established in October 2020 a Correspondence Group on “Guidance to Address Maritime Corruption” under the coordination of the Marshall Islands. The group’s primary aim is to develop draft guidance to implement anti-bribery and anti-corruption practices.

A number of IUMI’s current policy topics relate directly to ESG, e.g. polar sailings and the IMO 2020 low sulphur regulation. Other policy issues with an ESG angle are currently under consideration either by IUMI or by IUMI’s membership.

Conflict minerals

Supply chain due diligence requirements regarding so-called conflict minerals aimed at greater transparency, are applicable or introduced by (supra) national law makers. EU Regulation 2017/821, which came into force on 1 January 2021, puts in place a framework for EU-based importers of certain metals and minerals origination from conflict-affected and high-risk areas (CAHRAs). The purpose is to ensure that trade into the EU is not funding conflicts and human rights abuses.

Importers, traders, smelters and refiners of

- concentrates and ores containing 3TG (tin, tantalum, tungsten and gold), and
- metals containing or consisting of 3TG

have to carry out obligatory due diligence checks on suppliers and origin of the materials.

The importers, including those who are not established in the EU, must declare minerals and/or metals for release and circulation in the EU. Smelters and refiners who exercise any form of extraction and/or metallurgy processing aiming at producing a metal from a mineral, are under the same due diligence obligation. Downstream users who do not directly import any of these materials are exempted from this obligation.

The supply chain due diligence obligations can be summarized as follows:

- adopt a supply chain policy for 3TG and communicate this to suppliers and the public; this includes risk assessment, a strategy to respond to identified risks, third party independent audits in the supply chain,
- implement due diligence standards as per OECD guidance¹;
- senior management to establish strong company management systems to control, hold records of the process and report,
- incorporate appropriate contractual provisions in the supply chain,
- provide for an information and disclosure to authorities, and

¹ <https://www.oecd.org/corporate/mne/mining.htm>

- establish a complaint procedure for stakeholders including access to an external expert.

Similar but not identical provisions are part of the US ‘Dodd-Frank’ Act section 1502 aiming at the Democratic Republic of Congo (DRC) and neighbouring countries.

Based on the many initiatives and expectations concerning ESG and how this is handled also by marine insurers, IUMI will naturally play a role by facilitating a dialogue within the IUMI membership, and addressing IUMI members’ position on ESG issues towards public stakeholders, authorities and industry partners. Examples where ESG issues affect marine insurance business are manifold: Environmental issues may be affected for example when it comes to climate change, air / sea pollution or unsustainable practices (e.g. in polar water or by illegal fishing practices). Governance issues play a role in marine insurers’ work on compliant and sustainable business.

IUMI cannot and will not bind its members with overarching commitments, but will enable its members to decide on their own action and commitments in a transparent manner and on a fully educated basis.

Relevant authority / organizations and documents:

- **Cape Town Agreement** of 2012 on the Implementation of the Provisions of the 1993 Protocol relating to the Torremolinos International Convention for the Safety of Fishing Vessels, 1977, 11 October 2012.
- **International Maritime Organization (IMO), MEPC and PPR:**
(www.imo.org/en/OurWork/Environment/Pages/Default.aspx#have)
 - **LC 41/9:** Update on recent development with respect to marine litter and microplastics, note by Secretariat, 5 July 2019.
 - **JWG 4/9:** Cooperation and dialogue on environmental issues relating to fisheries, note by Secretariat, 24 September 2019.
 - **MEPC75/7/4:** Proposal to establish an International Maritime Research and Development Board, submitted by BIMCO, CLIA, ICS, INTERCARGO, INTERFERRY, INTERTANKO, IPTA and WSC, 18 December 2019.
 - **MEPC75/INF.5:** Preliminary analysis of what R&D work activities could be undertaken by IMRB, submitted by ICS, BIMCO, INTERTANKO, CLIA, INTERCARGO, IPTA, INTERFERRY and WSC, 18 December 2019.
 - **MEPC75/8:** Update on recent interagency cooperation and capacity-building activities on marine plastic litter, submitted by the Secretariat, 18 December 2019.
 - **MEPC75/8/3:** Report of the Correspondence Group on development of a strategy to address marine plastic litter from ships, 27 December 2019.
 - **FAL44/13:** IMO guidance to address bribery and corruption in the maritime sector, submitted by Liberia, Marshall Islands, Norway, United States, Vanuatu, ICS, IUMI, IAPH, BIMCO, IMPA, IFSMA, INTERTANKO, IG, InterManager, IPTA, IHMA, IBIA, FONASBA, ITF and NI, 7 February 2020.
 - **MEPC75/WP.3:** Final report of the seventh meeting of the Intersessional Working Group on Reduction of GHG Emissions from Ships, 10 November 2020.

- **United Nations**
 - Environmental Programme Financial Initiative (UNEP FI):
www.unepfi.org
 - Principles for Sustainable Insurance: www.unepfi.org/psi/the-principles, 2012
 - Guidelines to control or mitigate the risk of insuring vessels and companies associated with illegal, unreported and unregulated (IUU) fishing), 2018.
 - PSI ESG Guide for non-life insurance, Version 1.0, June 2020.
 - Final report on the project to pilot the TCFD recommendations, January 2021.
 - Sustainable Development Goals (SDG):
www.un.org/sustainabledevelopment
 - Paris Agreement on Climate Change: (www.unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement)
- **European Union:**
 - Conflict minerals regulation: <https://ec.europa.eu/trade/policy/in-focus/conflict-minerals-regulation/regulation-explained/>, 22 November 2016.
 - 2020/C 349/01: Guidelines on the enforcement of obligations under the EU Ship Recycling Regulation relating to the Inventory of Hazardous Materials of vessels operating in European waters, 20 October 2020.
- **United States:**
 - Dodd-Frank Act Section 1502
- **Neptune Declaration:** Declaration on seafarer wellbeing signed by IUMI in January 2021.
- **IACS:** Position paper – Developing and implementing technical measures to support GHG emission reduction targets, 8 March 2021.

Timeline / important dates:

- IUMI response to UNEP FI consultation on the guideline for underwriting environmental, social and governance risks in non-life insurance business, 30 September 2019.
- Presentation Hermelo Bacani, UNEP FI, during IUMI Toronto Conference, 17 September 2019
- Ministerial Conference on Fishing Vessel Safety and Illegal, Unreported and Unregulated (IUU) Fishing in Torremolinos, Spain, 21-23 October 2019.
- IUMI membership survey on ESG risks and principles, late 2019 / early 2020.
- PPR 7: 17 - 21 February 2020.
- IUMI becomes a UNEP FI PSI 'Supporting Institution', February 2020.
- BBNJ agreement negotiations due for completion in 2021.
- EU Plenary 14-17 September 2020.
- FAL 44: 28 Sept-2 Oct 2020.
- IUMI webinar UNEP ESG PSI guide, 6 October 2020.
- IMO Intersessional WG on GHG emissions: 19-23 October 2020.
- MEPC 75: 16-20 November 2020.
- EU conflict minerals regulation enters into force 1 January 2021.
- MEPC 76: 14-25 June 2021.



IUMI will:

- Inform IUMI's membership where appropriate about developments with regard to ESG issues and facilitate where necessary an internal dialogue in order to agree on IUMI positions.
- Explain and communicate IUMI's standpoints to other industry participants and public stakeholders / authorities.
- Participate in the industry and public dialogue on "ESG risks and principles" and make IUMI's position heard and understood.
- Support the Cape Town Agreement on the implementation of the Torremolinos Convention for the safety of fishing vessels.