Sustainable business is good business
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Foreword

Sustainable business is good business

Our company has long recognised that espousal of human rights, labour standards and environmental protection is crucial for responsible business and sustainable development, and so of long-term benefit to the re/insurance industry. Indeed, protection of the natural environment and respect for human rights are among the hallmarks of Swiss Re’s way of doing business.

In all our practices, we honour the principles expressed by the International Bill of Human Rights, the eight Core Conventions of the International Labour Organisation, the Rio Declaration on Environment and Development, and the UN Convention against Corruption. We have publicly declared these commitments through our participation in the UN Global Compact and in our full support of the implementation of the UN Guiding Principles on Business and Human Rights.

As one of the largest reinsurance companies in the world, we have an important role to play in the promotion of responsible practices within our own company as well as through our business relationships.

We also acknowledge that even when absolutely legal and economically beneficial, any business activity we undertake may also have unintended social and environmental downsides. In consequence, our company has developed a Sustainability Risk Framework which is designed to identify and mitigate such risks through embedding the principles of respect for human rights, environmental protection and due diligence into everything we do. We also seek to support those clients who embrace the same ideals and practices.

The purpose of this publication is to update our stakeholders and partners on our Sustainability Risk Framework and how we apply this risk management tool in practice. Through building on momentum generated by initiatives such as the Principles of Responsible Investment, the Principles of Sustainable Insurance and the CRO Forum, this paper is also intended to encourage the even stronger adoption of sustainable business practices throughout the re/insurance industry.

Patrick Raafflaub
Group Chief Risk Officer
Introduction

What is sustainability and how do we define Sustainability Risks?

Sustainable progress is development that meets the needs of the present without compromising the ability of future generations to meet theirs. To be sustainable, progress must improve economic efficiency, protect and restore ecological systems, as well as enhance our wellbeing. The principle of sustainability is a key cornerstone of all our corporate responsibility activities.

In a properly regulated market environment, profitable business activities create economic value. Occasionally, however, they may also adversely affect people and the environment. If such impacts are ignored, they may pose a threat to societies’ long-term sustainable development.

Many businesses – including our own – often grapple with the issue that while some transactions may be economically beneficial and perfectly legal, they may still have adverse environmental and social impacts. We believe it is important to recognise the existence of these problems, approach them ethically and address them responsibly throughout our business.

A crucial risk management tool
Our Sustainability Risk Framework allows us to assess the risks related to the social and environmental consequences of our transactions. Developed in 2009 as an advanced risk management instrument, the Framework translates our respect for human rights and the natural environment into a risk management tool. Through a company-wide due diligence process, we can identify and assess the potential impacts of such transactions. Should these consequences overstep the limits specified in the Framework, we seek to work with our clients to find solutions to the problems. In cases where we see no potential for improvement, we would forgo involvement rather than compromise our values.

Rather than viewing the Sustainability Risk Framework solely as a way of safeguarding our brand or as part of our general corporate responsibility effort, we now also – and perhaps more importantly – define it as an essential risk management tool fully embedded in our standard operating procedures.

Staying ahead
Good management of environmental, social and governance risks often goes beyond legal requirements. This applies especially to transnational companies that operate across different regulatory regimes and answer to different sets of well-informed stakeholders. The responsible approach to human rights and environmental protection in our Sustainability Risk Framework has helped us stay ahead of regulation in a number of ways. When the Swiss Parliament passed a law prohibiting Swiss firms from financing indiscriminate weapons in 2013, our defence policy had already been excluding such companies from our business for four years.

Similarly, we required the operators of hydraulic fracking wells to disclose the fracking fluids they were using two years before this became a standard regulation in most US States. Guided by our Code of Conduct, we apply our values consistently across the globe.
Our Sustainability Risk Framework is an advanced risk management instrument specifically designed to identify and address sustainability risks in our core business.

The Sustainability Risk Framework (the Framework) is updated regularly to address new developments in each industry, whether technological or regulatory. The Framework consists of two Umbrella Policies – one on Environmental Protection and the other on Human Rights. Based on the Umbrella Policies we have also developed seven Sector-specific Guidelines, which specify the implementation of the Umbrella Policies in those sectors and highlight the most salient human rights and environmental issues.
Human Rights
In all its activities, Swiss Re respects and has publicly committed to upholding international agreements on human and labour rights. This commitment means that we do not enter into business relationships in countries where severe violations of human rights occur in a systematic way. In those countries, Swiss Re will provide business support only to emergency humanitarian relief efforts provided by an internationally recognised humanitarian agency. Moreover, Swiss Re forgoes any involvement with entities in countries complicit in repeated violations of the International Bill of Human Rights such as the right to life, liberty and security. Nor, for example, will it have any association with entities violating labour rights as expressed in the ILO Conventions, such as the prohibition of forced labour and of child labour.

Whenever we detect that our client’s operation may affect human rights, we analyse transactions with those clients through our due diligence process. If our concerns are confirmed, we do not participate in the transaction. However, if we see an opportunity to use our good offices to improve the situation for the local people, we are prepared to enter a discussion with our client, highlighting our concerns and requesting they improve their practices.

Among clients’ practices Swiss Re views favourably are those based on human rights policies contained within international agreements such as the International Bill of Human Rights, and those which are implemented across their operations. We are also very supportive of companies who conduct human rights due diligence, including independent assessments of the impact of their activities on such rights.
Environmental protection

The Umbrella Policy on Environmental Protection is the second pillar of the Framework. It enables Swiss Re to identify, address and minimise possible impact on the environment from all our business activities. This policy consequently allows Swiss Re not only to mitigate any possible exposure to environmental risks but also contribute to positive change in the world. The policy on Environmental Protection applies to all Swiss Re transactions.

As in the case of human rights, we express our commitment to environmental protection by our adherence to the principles articulated in international agreements such as the Rio Declaration on the Environment and Development. We do not support business activities that do irreversible damage to the environment, harm ecologically sensitive areas or threaten endangered species. We would not, for example, support entities responsible for ongoing significant pollution and who pursue large scale projects without conducting credible assessments of the environmental impact of such activities — and implementing recommendations from those assessments.

In contrast, Swiss Re is supportive of clients who carry out independent analyses of the environmental and social impact of their activities and who subsequently adhere to the results of such assessments. We also look positively on entities who have developed an environmental management strategy, with clear annual and mid-term goals, aimed at reducing their environmental footprint.
The Guidelines

Since the Umbrella Policies do not go beyond the expression of general principles, we have also developed Sector-specific Guidelines. They apply our positions on human rights and environmental protection to the specific sectors in which we do business. They are designed to help us address the sustainability issues we face when operating in these sectors.

The industries in question are:

- Animal testing
- Dams
- Defence sector
- Forestry, pulp & paper, oil palm
- Mining
- Nuclear non-proliferation
- Oil & gas
Animal testing
Animals share this planet with us. They should be treated with respect, and be spared suffering. Even in cases of research needed to save human lives, animals’ rights and well-being still need to be protected. For this reason, Swiss Re does not support activities that entail cruel treatment of animals and the testing of primates and endangered species for products that are non-essential to human survival.

To ensure that the welfare of animals is safeguarded, Swiss Re will conduct additional due diligence on companies whose principal activity is the conduct of experiments on animals to develop, test and manufacture drugs and similar products. Whenever we find evidence pointing to the violation of our principles, we do not participate in the transaction. We encourage clients who develop and implement an animal welfare policy, operate an independent ethics committee and who adhere to international best practice.

Dams
Dams can help reduce our dependency on carbon and supply us with renewable energy. However, their construction may involve relocation of a large number of people, poor living and working conditions for the construction team and the destruction of local habitat. In consequence, we do not associate ourselves with hydropower projects and supporting infrastructure that involve violations of human rights, labour rights and health and safety considerations. We also reject business support for projects which entail unaddressed environmental damage and raise objections from downstream states.

In addition, we do not provide business support for companies that benefit from the absence of credible environmental and social impact assessments for any new large scale projects.

Our due diligence process distinguishes between conventional and run-of-the-river hydropower production. Run-of-the-river projects tend to be less problematic as they do not entail the construction of a reservoir. Their impact on local biodiversity, however, can be still significant as they may prevent fish migration. Conventional hydropower projects are often more challenging because the construction of the dam is labour-intensive and could impinge on labour rights. Further concerns are the associated flooding of large areas which could impact the local population (especially when indigenous lands are involved) and loss of cultural heritage (UNESCO sites). Environmental issues are again related to the impact on local biodiversity – dams tend to make it harder for fish to migrate. This, in turn, risks food security for local communities who may be dependent on fishing for their livelihoods. These aspects are always examined during our due diligence process that ensures we do not provide support for projects found in violation of our principles.

We encourage companies in this sector to conduct assessments with a reputable party on the impact a project will have on the environment and human rights, and subsequently implement the recommendations made. We also encourage companies that adhere to the criteria set forth by the World Commission on Dams.
Defence
Countries have a right to defend their territory and their people. However, acknowledging the increasing instability around the world and the devastating impacts of armed conflicts on the local populace, we recognise our responsibility in respect to conflict-sensitive business practice. We do not support weapon transfers to conflict areas or support companies that perpetrate human rights violations in the course of a conflict.

We are especially concerned about armaments that inflict indiscriminate and disproportionate harm to humans and the environment such as biological and chemical weapons, anti-personnel mines and cluster munitions. All such weapons are banned by a vast majority of nations such as through the implementation of the Ottawa Convention of 1997 and the Oslo Convention of 2008. In Switzerland, these conventions were implemented in the Swiss War Material Act of 2013. We do not, therefore, provide business support for companies involved in, or benefitting from, the manufacture or transportation of such weapons. It is worth noting that Swiss Re was opposed to indiscriminate weapons even before they were banned by the Swiss War Material Act.

We encourage companies operating in conflict areas to educate their employees on human rights and conflict sensitive practices in order to help minimise the hardship of the employees and the local population in these areas.

Forestry, pulp & paper and oil palm
Plantations and natural forests cover large tracts of land in many of the world’s major areas of biodiversity. Many local populations rely on forests for sustenance and many others look for employment on plantations. It is essential that these projects are managed sustainably.

Swiss Re will consequently not provide business support for activities that violate local, national or international law or binding agreements regarding illegal logging, including the use of illegal fires. Swiss Re conducts additional due diligence to ensure that our potential clients in sensitive regulatory environments are fully covered by relevant sustainability certificates. These ensure that the clients are protecting the environment and respecting rights and livelihoods of the local population. We have a favourable view of companies in this sector that encourage peers to adhere to sustainable forestry practices and that seek to minimise the environmental and social impact of the necessary infrastructure, such as access roads or ports.
Mining
Metal and mineral products are essential components of the products we use daily. Mining operations can, however, displace communities, harm local populations and threaten workers’ wellbeing. Consequently, we do not engage in mining projects that benefit from violations of human rights, labour rights and health and safety considerations. We also repudiate child labour and involuntary or uncompensated relocations of the local population. Nor do we support the location of mines in UNESCO World Heritage Sites or protected areas.

Our due diligence process recognises the specifications of the various stages of a mine’s life-cycle.

In respect to Construction, we would be focused on the impact on the local population, especially whether their relocation was free, peaceful and compensated. We conduct thorough due diligence into projects where we find information that they may have violated the principles of Free, Prior and Informed Consent (FPIC). This is the principle that a community has the right to give or withhold its consent to proposed projects that may affect the lands it customarily owns, occupies or uses. Regarding Operation, we would pay attention to environmental consequences (e.g. tailings management or the management of cyanide in gold mining); human rights in the context of the relationship between the mine and the local community (peaceful coexistence or violent protest; freedom from violence from security forces); impacts on the health of the local population (access to vital resources such as water and land); treatment of the labour force (no child labour and no forced labour).

Nuclear Non-Proliferation
Ethical concerns and international treaties guide our approach to transactions related to nuclear energy. To avoid contributing to the proliferation of nuclear weapons, and remain supportive of the medical usages of this energy, we do not participate in nuclear energy transactions in countries that are not members of the Non-Proliferation Treaty (NPT) or countries found in breach of the NPT by the International Atomic Energy Agency (IAEA). Similarly, we would not provide support for facilities that do not comply with the Nuclear Supplier Guidelines (NSG), a multinational body concerned with reducing nuclear proliferation. In addition, we do not provide business support to companies who produce nuclear weapons outside the recognised nuclear states and those accused of nuclear proliferation.
Oil and Gas
We do not provide support to oil and gas transactions that would expose us to unresolved environmental damage and human rights violations. Moreover, we disassociate ourselves from off-shore drilling in the Arctic and from those operations based on undisclosed information on emissions and fracking fluids.

We conduct additional due diligence into projects that may have experienced operational accidents with an impact on the environment in the past. We keep a close eye on unmitigated venting or flaring of gas where economically viable alternatives exist. We also evaluate if the projects involve substantial land acquisition or infringe on local populations’ access to natural resources and negatively impact population’s standard of living.

In respect to oil sands transactions, we do not support operators and engineering contractors involved in oil sands greenfield mining. Moreover, we do not associate ourselves with those companies who do not disclose their greenhouse gas emission performance and strategy via an independent platform such as the Carbon Disclosure Project. Swiss Re gives preference to operators and engineering contractors that demonstrate a track record of energy efficiency improvements over time and who have reduced emissions of air pollutants such as SO2 and NO2. We are also supportive of companies that apply best practice to protect and reduce water use by improving operational water efficiency.

Regarding Shale Oil and Gas Hydraulic Fracturing, we do not support operators or hydraulic fracturing contractors that do not disclose the composition of fracturing fluid additives via an independent platform such as fracfocus. Nor are we supportive of operators and projects in regions exposed to high physical water scarcity in countries designated as weak regulatory environments. Swiss does, however, take a favourable view of companies committed to developing fracturing fluid mixtures that, if inadvertently spilled or migrated, do not impair water quality, or adopt techniques that reduce the need to use chemical additives.
How we apply the Framework in practice

The sector guidelines and umbrella policies are implemented through country and company exclusion lists and through a two-step due diligence process that ensures compliance with the sustainability risk framework across the whole company.¹

**Company exclusions**
Each policy of the Sustainability Risk Framework specifies certain criteria that may lead to the exclusion of a company from our business. Annually, we compile a list of companies that are found in violation of these exclusion criteria. No business may be conducted with any of these companies by any part of Swiss Re while they remain on the company exclusion list.

**Country exclusions**
Swiss Re also excludes certain countries from its business that have particularly poor human rights records. This step goes further than compliance with international trade controls (ITCs). We annually disclose the list of excluded countries in our Corporate Responsibility Report. Our goal is to refrain from directly underwriting risks or making investments in entities that are based in these countries.

**The due diligence process**
The due diligence process is the central part of our Sustainability Risk Framework. It consists of the Sensitive Business Risk (SBR) Assessment Tool, the SBR Referral handled by a dedicated team of analysts, and an appeal process through which disagreements can be addressed. The process allows us to efficiently implement our principles and helps us focus on the good risks. Most importantly, this process is firmly embedded in the Group’s underwriting guidelines and thus requires that all our business is compliant with our human rights and environmental protection guidelines.

¹ Asset Management uses the Sustainability Risk Framework, together with the Principles for Responsible Investment, to develop and apply their environmental, social, and governance ratings. These are then used in the investment risk assessment.
Sustainability Risk Referral process

1. Proposal for transaction

2. Sustainability check on new transaction

3. If transaction assessed as high risk by the SBR Assessment tool

4. Provide actionable advice on sustainability risk based on internal and external data

5. Analysis by the SBR team

6. Decision issued
- Proceed
- Proceed with condition
- Abstain
- Escalation procedure triggered in case of disagreement

7. Additional questions and interaction

Abstain
- Excluded country
- Excluded company

High risk
- High impacts on people or environment; submit an SBR referral

Medium - Low risk
- Limited impacts on people or environment; research to be conducted by the Business practitioner
How we apply the Guidelines in practice

SBR Assessment Tool
In 2015, we introduced a new online Sensitive Business Risk (SBR) assessment tool, which enables our underwriters to screen potentially sensitive transactions for their impacts on the local environment and on the human rights of the affected people and workforces.

The online tool is easy to access, provides clear guidance to our underwriters about what to assess in further detail and ensures consistent documentation in our standard underwriting tools. At the same time, it enables our central sustainability risk management unit to adjust key policy parameters and make them effective “at the push of a button”.

The tool has thus further strengthened due diligence of potential sustainability risks in our core business. In the first six months since its launch in 2015 our underwriters used it to carry out checks on 3,650 transactions. If this first screening reveals any potential issues, our underwriters carry out further due diligence measures in order to ensure that each transaction is consistent with our principles.

SBR Referrals
The transactions identified as most critical are transferred through the SBR referral tool to our team of sustainability experts, who conduct targeted research to decide whether the transaction at hand is acceptable on ethical grounds. This decision takes the form of a binding recommendation either to go ahead with the transaction, to go ahead with certain conditions attached, or to abstain. If there is disagreement about the recommendation, the case can be escalated to the next management level, ultimately to the Group Chief Risk Officer and the Group Executive Committee.
Where we said ‘no’ – Smelter pollution in Latin America

We were approached with a request for a property cover on a smelter in Latin America. Our SBR analysis showed that environmental controls on the site had been lacking for decades which had resulted in high pollution levels of air, top soil and ground water. This was reflected in the poor health of the local community, especially the children. Given that the company had not implemented any remediation over the past decades and had not respected the community’s right to health, we declined to offer the company cover.

Where we said ‘no’ – Dam construction abuses in S.E. Asia

Any underwriting process for a dam in South East Asia involves a thorough sustainability risk assessment by our SBR team. In the course of one such assessment, we discovered testimonials of forced labour, violent resettlement, intimidation and absence of local consent to the project. We decided to forgo involvement in the project as we did not see any potential for redress of the situation and we did not want to tacitly approve and so indirectly profit from such practices.
How we apply the Guidelines in practice

Engagement and leverage
The decision to abstain from a business is used for the gravest of human rights violations and environmental damage – in cases where we see no likely avenue for remediation, redress or improvement. We prefer to use our good offices to show our clients that we are concerned about certain aspects of their operations and intend to enquire about their plans for remediation. We do this most frequently by making our cover conditional on the client’s response to the issues we have identified as most acute. We achieve this by opening a dialogue with them and asking critical questions both to show our concern and to understand their plans for remediation and prevention.

We also frequently request relevant documents that are not publicly available, such as environmental and social impact assessments. We also frequently reach out to independent technical experts for advice on issues that concern us.

In addition to clients, we also engage with our cedents, industry organisations as well as other types of financial institutions in order to share our expertise and contribute to the adoption of similar principles across the industry. We view such efforts as essential in order to contribute to effective change and achieve sustainability across the industry.

Sensitive Business Risks referred to our expert team in 2015

- 22% Mining
- 18% Excluded/critical country
- 17% Oil and gas
- 12% Dams
- 10% Other industry/issue
- 9% Defence
- 4% Human rights
- 3% Forestry, pulp & paper & oil palm
- 2% Animal testing
- 1% Environmental degradation
- 1% Multi-issue
- 1% Nuclear weapons proliferation

Number of Sensitive Business Risk referrals

- Proceed
- Proceed with conditions
- Abstain
- Not materialised

* With the new process we in addition conducted 3550 assessments
**Track record**
Every year, an increasing number of sensitive business risks are referred to our specialised SBR unit. In a record jump, 2014 saw referrals more than double. This indicated a growing awareness of the Sustainability Risk Framework as well as an increased exposure to less regulated markets. In the first six months of its launch in 2015, our underwriters used the SBR Assessment Tool to carry out checks on 3,550 transactions. Our central team of sustainability experts analysed 309 transactions that year.

We regularly audit the implementation of the Sustainability Risk Framework through our business risk review. This focuses on the quality assessment of underwriting and costing activities to review the quality of the technical work carried out. The results and recommendations for improvement are reported to the Sustainability Management team, which can then take appropriate action if implementation gaps are identified. Should an issue be detected outside the regular audit cycle, it is handled through a process similar to that applied to other types of possible risk problems. This shows that sustainability risks are mainstreamed through the company.

**Increasing effectiveness**
Each new Swiss Re employee has to complete an online training on the Sustainability Risk Framework and client-facing roles also go through regular refresher training.

Additionally, to strengthen the Sustainability Risk Framework at our locations around the world, we have set up an SBR expert network to provide permanent points of contact. These experts from Risk Management act as interfaces between the Zurich-based Sustainability Management team and our local underwriting teams. Their responsibilities include awareness raising, organising trainings, facilitating SBR assessments and maintaining contact with regional stakeholders.

The SBR Assessment Tool allows all underwriter and client managers to check the sensitivity of their transactions. This facilitates the implementation of the Framework and its streamlining into the underwriting process. This is subsequently checked by a standard internal insurance risk review which analyses the quality of the underwriting process. As such, sustainability risk is mainstreamed through Swiss Re.

**Reporting**
The Sustainability Risk Framework is integrated into our Group-wide risk management process. This also means that its implementation and the SBR referrals are subject to quarterly and annual internal reporting. Similarly, we report the status of the Sustainability Risk Framework and SBR referrals externally through the Corporate Responsibility Report, which is externally assured by an independent auditor.
Conclusion

Recent research shows that sustainability is the strategically smart way to go in the long run. Protecting the environment coupled with respect for human rights help underpin our social and regulatory license to operate. Indeed, the long-term viability of most businesses fundamentally depends on how well companies take care of their natural surroundings and pay attention to the wellbeing of their employees and the wider environment in which they operate. Apart from questions of morality, companies with poor human rights records may suffer financial losses as a consequence of public opposition to their products or the environmental damage inflicted in the course of their production. Good community, workforce and environmental management, on the other hand, tends to lower operating costs in the long run. In addition, it can enhance the reputation of the company in question as an employer of choice. For us in insurance, this means that our client’s understanding and stewardship of community and environment can be used as a proxy for the quality of the risk we may choose to insure.

Even though our company has been a global front runner in the drive to implement innovative sustainability solutions for several years – since 2004 Swiss Re has been placed top by the Dow Jones Sustainability Indices nine times – we are aware that some of the goals we have set ourselves are necessarily aspirational. Nor would we want to place ourselves on a pedestal as some sort of sustainability paragon. What we do want is to work ever more closely with our clients and partners to establish responsible business practices both within the insurance industry and beyond.
For Swiss Re, human rights refer to the internationally recognized human rights. We make specific references to the following documents:

1) the International Bill of Human Rights (IBHR) which is the essential document articulating human rights and freedoms. The IBHR consists of
   - the Universal Declaration of Human Rights (UDHR) and the main instruments through which it has been codified:
     - the International Covenant on Civil and Political Rights (ICCPR); and
     - the International Covenant on Economic, Social and Cultural Rights (ICESCR).

2) International Labour Organization (ILO) core conventions as set out in the ILO’s Declaration on Fundamental Principles and Rights at Work. The Declaration covers four fundamental principles and rights at work:
   - Freedom of association and the effective recognition of the right to collective bargaining.
   - Elimination of all forms of forced or compulsory labour.
   - Effective abolition of child labour.
   - Elimination of discrimination in respect of employment and occupation.

3) Rio Declaration on Environment and Development that recognizes importance of preserving the environment and set forth international guidelines for doing so.

4) UN Convention against Corruption that aims at preventing corruption, including domestic and foreign bribery, embezzlement, trading in influence and money laundering.

5) UN Guiding Principles on Business and Human Rights that specify the state’s responsibility to protect human rights and the corporate responsibility to respect human rights.
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