

# **Sava Insurance Group guidelines for responsible underwriting environmental, social and governance risks in non-life insurance business**



**SAVA**  
INSURANCE  
GROUP



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On the basis of article 2 of the management board's rules of procedure of Pozavarovalnica Sava d.d., the management board of Sava Re, d.d., Ljubljana adopted the following document in its 3rd regular session on 18 January 2022: **Sava Insurance Group guidelines for responsible underwriting environmental, social and governance risks in non-life insurance business.**

# I. Purpose and objective

The purpose of these guidelines is to provide a substantive framework for the responsible underwriting of environmental, social and governance (ESG) risks in non-life insurance business of Sava Insurance Group insurance companies (hereinafter: insurance companies).

These guidelines form the basis for responsible ways to avoid or minimise exposure to risks arising from the actions of existing and future customers (policyholders) or their companies, which are not in line with the principles laid down in this document.

The objective of (implementing) these guidelines is to properly manage ESG risks and subsequently reduce or avoid insurance company's exposure in the event of ESG-sensitive activities and protect its reputation.

These guidelines are the basis for setting up ESG risk monitoring procedures in the process of underwriting existing or future policyholders or their companies (hereinafter: the policyholder).

# II. ESG risk definition

As part of the regular (technical) underwriting process conducted by the insurance company, the so-called ESG profile of the policyholder must also be considered (when renewing the insurance for the first time after these guidelines become effective or when underwriting new insurance policies).

In the process, special consideration must be given to the policyholders who meet at least one of the following criteria:

## 1. are involved in actions that go against ESG principles, namely:

- the production of arms, the ordinary use of which violates fundamental humanitarian principles (e.g. cluster bombs, land mines, nuclear weapons);
- grave or systematic violations of fundamental human rights;
- causing severe environmental damage;
- serious corruption.

## **2. are involved in activities that fully or predominantly fall into the following eleven ESG-sensitive areas:**

### **2.1. Manufacture of weapons and related activities**

Key risks include:

- the production of unconventional weapons, such as cluster bombs, land mines, nuclear weapons, etc., the ordinary use of which violates fundamental humanitarian principles;
- supply of arms to high-conflict areas, which undermines peace, stability, the rule of law and human rights;
- protection of manufacturing facilities that could cause human right violations and personal injury, also due to improper actions of the security personnel.

### **2.2. Large hydroelectric power plants and dams**

Key risks related to large hydroelectric power plants and dams are:

- land overuse, which can have significant negative impact on the environment, (e.g. loss of biodiversity, soil erosion, deforestation, landslide hazard) and affect the population (e.g. flooding of farmland, forced displacement, destruction of cultural heritage and severe damage to the landscape);
- physical risks to the population, including risk of flooding or water shortage downstream of a reservoir;
- greenhouse gas emissions linked to construction and operations, particularly operations-linked emissions arising from vegetation destruction, which can be very high when power plants are constructed in tropical regions;
- violations of human and labour rights, including a poor track record of worker safety, collective bargaining breaches, forced labour and improper actions of security personnel;
- bribery and corruption linked with the issuance of permits (e.g. for acquiring the land, environmental and social impact assessment), be it on local or state level.

The category of large hydroelectric power plants and dams also includes other river structures, dams and other large water barriers. Depending on the specifics of every hydroelectric power plant, the environmental and social impact can change.

### **2.3. Mining**

Key risks include:

- unwanted effects on biodiversity in natural habitats and protected areas due to erosion, deforestation, landslides and pollution that could cause leaks, spills or other accidental release into the ground, surface water and/or underground water sources (e.g. cyanide, mercury);
- risks associated with air emissions due to dust, landfills, roads and infrastructure, and gases produced by fuel combustion;
- use of energy and water in the process;
- risks to communities and human/labour rights, including a poor track record of worker safety, breaches of labour law or collective bargaining agreements, forced labour, water and soil pollution, degradation of natural/cultural heritage, severe damage to the landscape;
- bribery and corruption associated with obtaining exploitation concessions, be it at the national or local level, and financing of criminal organisations.

## **2.4. Healthcare**

Key risks include:

- critical tests, especially for vulnerable people, insufficient ethical and scientific review, insufficient proof of voluntary consent, developing genetics, engineering or genetic modifications on people;
- product safety and quality control (unethical or negative actions that affect customers' health); development of genetically modified food, such as seeds and produce and other organisms intended for use in farming or human consumption, of these are harmful to people;
- animal testing, where special attention must be paid to animal testing of non-pharmaceutical products, including cosmetic and personal care products, cleaning products, etc.;
- bribery and corruption associated with patenting and licensing procedures, anti-competition practices and violations of competition law (monopoly, etc.).

## **2.5. Adult entertainment**

Key risks include violations of human and children's rights, such as human trafficking, forced labour and public health threats, related to producing, directing and publishing adult entertainment materials.

The main categories are:

- companies producing or publishing films and videos containing explicit sexual content;
- companies producing sexually explicit programming intended for adult TV viewers, including pay-per-view;
- companies producing sexually explicit video games for adult consumers;
- companies producing magazines and other printed materials containing sexually explicit images for adult consumers;
- companies owning, operating or granting licences to commercial establishments such as striptease clubs, nude performances, saunas, massage parlours or booths intended for adult entertainment, where the owners, agents or employees are involved in, allow or pay to other people to provide nude or sexually explicit entertainment (this includes all live acts with nudity, if viewing is limited to adults);
- companies selling adult entertainment products through specialised or online stores.

## **2.6. Betting and gambling**

Key risks include negative effects on customers' health, such as compulsive behaviour, illicit payments and financing of organised crime, and are linked to the following types of companies:

- companies that own or operate gaming establishments, such as casinos, racetracks, bingo halls and other similar establishments associated with betting (including horse, dog or other racing, lotteries, betting shops, slot machines, mobile games of chance and sport events organised for the purpose of betting);
- companies offering key products or services, essential for gambling, including products produced exclusively for gambling, such as slot machines, roulette wheels or lottery terminals, technology and support for gambling apps, such as IT maintenance, software design, security or surveillance systems and services of lottery ticket printing;
- companies providing services related to gambling, such as credit lines, casino management and consulting services, slot machine lease and rental, sport events for betting establishments, betting hubs, etc.

## **2.7. Fishing and animal husbandry**

Key risks include the loss of biodiversity, animal welfare and human rights violations related to the following activities:

- illegal, unreported and unregulated fishing (IUU), which is done in contravention of legal protection and management measures, currently applying at the global level, and which is deemed a great long-term threat to the sustainability of world oceans. IUU fishing includes activities that constitute grave violations of the UN Fish Stocks Agreement, such as fishing without a valid licence, misreporting the catch, forging or concealing the vessel's identity or route, or obstructing the work of inspectors or officers;
- commercial whaling, shark finning;
- using dynamite, poison or other unconventional fishing techniques;
- managing farms and/or direct involvement in the production of and trade in fur and leather.

## **2.8. Oil and natural gas exploration, drilling and extraction**

Exploration and exploitation of oil and gas fields are done in increasingly complex environments, such as on the sea and remote locations, in countries with weak governance or conflict areas, areas where exploitation relies on unconventional techniques, such as fracking, oil production from tar sands and deep sea drilling, where the impact is not as well known.

Key environmental and social risks include:

- unwanted impact on biodiversity in natural habitats and protected areas, including forests and the sea, degradation of the natural/cultural heritage and severe damage to the landscape;
- emissions in the air, including considerable production of greenhouse gasses and release of toxic gases such as sulphur or nitrogen oxides;
- water pollution and use in areas with water shortages;
- land pollution due to oil leaks and spills;
- violations of human and labour rights, including a poor track record of worker safety, collective bargaining agreement breaches, forced labour and improper actions of security personnel;
- physical risks to the population and forced displacement;
- bribery and corruption associated with obtaining exploitation concessions.

## **2.9. Thermal coal production**

Key environmental and social risks in the production of energy and electricity from coal include:

- emissions in the air, including significant production of greenhouse gasses and local air pollution;
- harmful effects on natural habitats and protected areas;
- water pollution and use in areas with water shortages.

## **2.10. Nuclear energy**

Key risks include:

- risks to the population's health and safety in the event of a nuclear accident;
- violations of human and labour rights (e.g. poor health protection for workers, breaches of collective bargaining, improper actions of the security personnel);
- land and air pollution due to radiation, air pollution and greenhouse gas emissions during the construction and decommissioning of nuclear facilities.

The main categories are:

- suppliers of key parts for nuclear power plants or key services in the planning, construction, engineering or operation of nuclear power plants;
- manufacturers and developers of nuclear fuels, reactors, control rods and other equipment specific for nuclear energy production, etc.;
- planning of containment buildings, including the engineering and construction of structures for facilities that exceed conventional planning;
- companies manufacturing or supplying essential components and equipment;
- companies providing the repair and maintenance of nuclear power plants, which includes non-destructive testing of vital nuclear energy equipment, such as reactors, and on-site testing;
- companies involved in the extraction, conversion and enrichment of uranium for nuclear energy, nuclear fuel, installation, etc.;
- companies providing nuclear fuel distribution and management, including the companies that provide the services of managing, processing and storing of spent nuclear fuel;
- companies handling radioactive materials, including fuel.

This includes generally all the activities that involve the use of nuclear reactors, with the exception of medical use.

## **2.11. Tobacco production**

Key risks include:

- risk to the public health, since tobacco is the leading cause of death and illness, including the compulsive disorder of tobacco use, which is especially alarming in young people, be it in direct tobacco users or passive smokers;
- considerable economic cost, including significant cost of healthcare for treating diseases caused by tobacco use, and the loss of human capital as the result of tobacco-related morbidity and mortality;
- impoverishment of vulnerable people: the great majority of tobacco users lives in countries with low or medium income, where the use of tobacco contributes to poverty by diverting household spending from basic needs such as food and housing to tobacco;
- violations of human, children's and labour rights in the tobacco production supply chain due to poor worker safety, including exposure to green tobacco sickness, breaches of collective bargaining agreements and child labour;
- illegal trade in tobacco products that leads to tax evasion and financing of organised crime networks.

These key risks apply to companies that produce tobacco end products, such as cigarettes, e-cigarettes, heated tobacco products, water pipes, cigars, cigarillos, rolling tobacco and papers, regardless of the share these represent in the company's total business.

# III. ESG risk assessment

Insurance companies assess and take into account ESG risks in an individual insurance underwriting process based on the ESG risk assessment table, which is attached to these guidelines.

Insurance companies must establish an appropriate and reliable system of powers and decision making for underwriting insurance based on the ESG risk assessment.

Insurance companies must ensure to properly document every ESG risk assessment and its impact on underwriting the policy.

If the ESG risk is potentially high or direct, the insurance company underwriting such a policy as an exception must provide an explicit written explanation as to why underwriting is justified, and adopt all possible measures for limiting the risk.



# IV. Reducing ESG risks and reporting

Depending on the severity of the policyholder's ESG risk profile, special measures for reducing risks can be adopted (hereinafter: special measures).

These measures may apply to the policyholder or the insurance company, e.g.:

- obtaining additional information about the policyholder, proposed measures for reducing ESG risks and a more detailed ESG risk assessment for the individual insured;
- adoption of special policies, rules, questionnaires, etc., that pertain to special risks and may provide the basis for decision-making in cases of major ESG risks;
- Insurance company's decision in certain cases of major risks to underwrite a policy under special conditions or to not underwrite it at all, thus reducing its participation in such risks.

Insurance companies will compile annual reports on implementing these guidelines and measures, and present them to the sustainable development officer at the Sava Insurance Group level.

The reports must reflect the results of constant monitoring of risks and ESG trends, and must be in a format that supports relevant analyses and, when required, additional updates of risk assessments related to the insurance company's sustainable policy commitments, as well as general global trends in this area.

Ljubljana, 18 January 2022

The Management Board of Sava Re d.d.

Marko Jazbec  
chairman



Jošt Dolničar  
member



Polona Pirš Zupančič,  
member



Peter Skvarča  
member



# V. Appendix

## Appendix: ESG risk assessment table

ACTIVITY/INDUSTRY	Type of insurance	1	5	6	7	8	9	9	12	13	13	13	13	14	16
	Workers' compensation insurance	Aircraft	Marine	Goods in transit	Property	Cyber	Agriculture	Marine liability	Liability	Product liability	D&O	Credit & suretyship	Miscellaneous financial loss		
Manufacture of weapons and related activities															
Construction / large hydroelectric power plants															
Mining															
Construction / coal															
Healthcare															
Healthcare / pharmaceuticals / biotechnology / life sciences															
Chemicals															
Food and beverage industry															
Adult entertainment															
Betting and gambling															
Livestock															
Fishing															
Paper industry & forestry															
Oil and natural gas exploration, drilling and extraction															
Manufacturing of fuel and oil and gas derivatives															
Thermal coal production															
Construction / nuclear energy															
Tobacco production															

### CONTENT LEGEND

0	Not applicable (N/A)
1	Potential risk
2	Potentially increased risk
3	Potentially high or imminent risk





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