Insurance International RBC | SER

Agreement on International Responsible Investment in the Insurance Sector

ESG INVESTMENT FRAMEWORK for the theme:

CLIMATE CHANGE and ENERGY TRANSITION

Version 2020

VERBOND VAN VERZEKERAARS

Save the Children

FNV

WORLD ANIMAL PROTECTION

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Ministerie van Buitenlandse Zaken

Ministerie van Financiën

Preamble to ESG theme-related frameworks

On 5 July 2018, the insurance companies affiliated with the Dutch Association of Insurers and the Dutch Association of Health Insurers concluded the Agreement on International Responsible Investment in the Insurance Sector[1] (hereinafter: the Agreement) with the Dutch government, NGOs and a trade union (hereinafter: the Parties). The purpose of the Agreement is to make a positive impact on themes relating to the environment, social conditions and governance (hereinafter: ESG[2]) and to strive to mitigate any adverse impacts. Insurers acknowledge their responsibility to act in accordance with international guidelines, specifically:

- UN Guiding Principles on Business and Human Rights (hereinafter: UNGPs). The UNGPs are the foremost international framework for human rights in the context of business;[3]
- OECD Guidelines for Multinational Enterprises (hereinafter: OECD Guidelines).[4] The OECD Guidelines are one of the most important internationally recognised guidelines for International Responsible Business Conduct (IRBC). They address a wide range of issues, such as human rights, labour rights, the environment, corruption, taxation, health and safety.

Both of these frameworks form the basis for the provisions of the IRBC Agreement.

Based on these international guidelines, insurance companies are expected to define sector- and theme-specific investment policies. The Agreement documents this commitment. The policies define the ESG principles and standards that an insurer applies when investing in sectors and themes assessed as relevant and high-risk.[5] Insurers are also expected to identify, prevent or limit the actual and potential adverse impact of their actions and explain how they deal with the risks. That applies as well to the insurer's own 'value chain' (for example businesses linked to the investee companies).

In the Agreement, the Parties have undertaken to seek out opportunities to improve the investment policy based on ESG themes, including those not or not conclusively covered by the international guidelines.[6] This framework concerns the development and implementation of a responsible investment policy on the theme of **Climate Change and Energy Transition**.

Due diligence

At the heart of any ESG theme-related framework are tools to assist in conducting due diligence on the investment portfolio.

[1] Read the Agreement here: www.imvoconvenanten.nl/-/media/imvo/files/verzekeringssector/convenant-verzekeringssector.pdf. The English version can be found at https://www.imvoconvenanten.nl/-/media/imvo/files/verzekeringssector/agreement-insurance-sector.pdf?la=en&hash=FB556D9429722E8F362B3B012310391A

[2] These terms and the abbreviation are used internationally.

[3] https://www.ohchr.org/documents/publications/GuidingprinciplesBusinesshr_eN.pdf

[4] OECD Guidelines: http://www.oecd.org/daf/inv/mne/48004323.pdf

[5] By relevant, we mean that the ESG theme applies to your investments. The Agreement does not provide a framework for determining when a subject is relevant for an insurer. That is up to the insurer itself to determine.

[6] The Agreement establishes the themes: animal welfare, children's rights, climate change, land rights and controversial weapons and the trade in controversial weapons.

The document *Responsible business conduct for institutional investors* is based on the OECD Guidelines (hereinafter: the Document).[7] The Document describes the due diligence approaches available to institutional investors, including insurers. The *OECD Due Diligence Guidance for Responsible Business Conduct* offers a clear description of the steps involved in the due diligence process.[8] We look at this more closely in Section 4.

Disclaimer

The Parties have examined the options for each theme in this framework in accordance with international standards, treaties and initiatives. The framework should **not** be seen as an obligation imposed on insurers. Rather, the Parties regard this framework as a **tool/guidance** to help insurers embark on a theme-specific investment policy. The framework will be subject to an assessment every other year.

The Parties are, of course, prepared to engage in further discussions with the insurer if questions arise.

[7] https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf

[8] https://mneguidelines.oecd.org/OECD-Due-Diligence-Guidance-for-Responsible-Business-Conduct.pdf

Contents

1. Introduction

Climate change is one of the greatest global issues of our time. Increasingly, it is inflicting irreparable damage on global economic and ecological systems, putting millions of people's livelihoods at risk. Climate change is caused by greenhouse gas emissions (e.g. carbon dioxide) and deforestation. Targets, measures and actions aimed at combating climate change and mitigating its effects have been agreed and implemented at international, European and national level.

In the context of international responsible business conduct, insurers can make an important contribution to the battle against climate change by refocusing their investment portfolios. Not only do insurers have to consider the impact of their investments on the climate but they should also be aware that their investments may be jeopardised by climate change (physical risks), or by transition risks such as new laws and regulations and changes in the market or in society, for example in social norms. On the other hand, by investing in renewable energy, insurers can support the energy transition and help to tip the balance in the fight against climate change.

2. Relevance for insurers

2.1 Social impact

Scientists agree that climate change is caused by greenhouse gas emissions and deforestation. Because insurers invest in companies that are responsible for these causes, climate change plays an important role in their investment policy. The extent to which that is the case depends on the investee companies' climate footprint. To achieve the climate change targets agreed internationally, however, it will not be enough to exclude the biggest polluters or to encourage them to change course; companies with a smaller climate footprint must also take action.

2.2 Impact for insurer

The various investments that make up a portfolio represent a collection of diverse sources of climate impact but also a collection of climate-related risks for the insurer that consequently affect financial stability. These risks can divided into:

- **physical risk** due to rising temperatures and extreme weather events. Examples include rising costs for insurers resulting from climate-related natural disasters such as floods, forest fires and tornadoes;[9] **transition risk** arising from necessary technological adaptations, potentially resulting in lower operating profits. Energy-intensive sectors (industry, transport, power plants, agriculture) are likely to be affected most by the climate transition. Countries that depend heavily on fossil reserves are also at increased risk. Other considerations:
    - **risks associated with laws and regulations**: e.g. mandatory adaptations (time pressure), taxes, possible CO_2 pricing or mandatory/accelerated transition to renewables such as wind and solar energy.
    - **social risks**: pressure on the part of shareholders and consumers to reduce CO_2 emissions, exclude fossil fuel producers and communicate CO_2 data, for example.

2.3 Sectors

The main sectors with investable assets in which climate change plays a role are:

- mining[10]
- energy generation, exploitation and storage
- utilities (energy supply)
- transport and mobility
- property and infrastructure
- agriculture and livestock farming
- (re)insurers (catastrophe bonds plus liability risks)

3. Frame of reference

3.1 Climate impact

Global frameworks

Climate change can only be tackled effectively if countries work together to reduce greenhouse gas emissions. The Netherlands has committed itself to several international climate

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[9] For example, a gradual 4% increase in temperature by 2100 will have an estimated cumulative impact on GDP of -30%. See: Burke et al., 2018.
The Association has published a position paper on climate adaptation. See www.verzekeraars.nl/me- dia/3643/hoofd-boven-water-verzekeren-van-schade-in-een-veranderend-klimaat.pdf and the site: www.verzekeraars.nl/klimaat

[10] Extraction of fossil fuels, i.e. oil, gas and coal.

agreements, starting with the United Nations Framework Convention on Climate Change (UNFCCC) of 1992, which remains the framework convention within which climate agreements are concluded.

It was within this framework that the Paris Agreement was negotiated in 2015. The aim of the Paris Agreement is to limit global warming to well below 2°C, and to do everything possible to limit it to 1.5°C. Under the Paris Agreement, the participating countries have made voluntary but binding commitments, including to reduce their greenhouse gas emissions. The Agreement also provides for new commitments to be made every five years, which, if necessary, can and should be more ambitious but must not in any event represent a step backwards (the 'ratchet' or 'ambition' mechanism). The 2015 commitments cover the 2021-2025 period; in 2020, new commitments will be made covering the 2026-2030 period.

The United Nations uses reports from the Intergovernmental Panel on Climate Change (IPCC) as a basis for its climate policy. The latest IPCC report,[11] the Special Report on Global Warming of 1.5°C (SR15) published in October 2018, shows that a 2°C temperature increase will exacerbate the impact of global warming significantly more than a 1.5°C increase. The report also argues that it is indeed possible to meet the 1.5°C target, but only if the signatories to the Paris Agreement undertake even more far-reaching and accelerated collective action, and that the transition to climate-resilient development paths must take place by 2030 at the latest. Recent research published in the renowned science journal *Nature* shows that to limit temperature rise to a maximum of 1.5°C, there should be no new investment in the fossil energy sector and existing investment should be minimised.[12] This means that the 2020 climate commitments for the 2026-2030 period must be ambitious enough to limit global warming to 1.5°C.

European frameworks

The European Union has transposed the global targets arising from the Paris Agreement into EU-wide targets and measures and into binding national targets. The EU's targets are:

- at least a 20% reduction in emissions EU-wide by 2020; 20% renewable energy and 20% improvement in energy efficiency compared to 1990;
- at least a 40% reduction in emissions EU-wide by 2030; 32% renewable energy and 32.5% improvement in energy efficiency compared to 1990.[13]

Like the other parties to the UNFCCC, the European Union will commit itself to a new emissions reduction target at the 2020 UN Climate Change Conference. The European Commission's new President, Ursula von der Leyen, is committed to an EU-wide net greenhouse gas emissions reduction of 55% below 1990, which is also the position of the Dutch government (as evidenced by the coalition agreement) and a number of other countries.[14]

National frameworks

The Netherlands applies the global and European targets in specific policy, with its National Climate Agreement and the Climate Act being particularly important in this context.
The Climate Act, adopted on 28 May 2019, sets the climate targets for the government. It also provides a framework for the development, impact measurement of and accountability regarding policies meant to support progress towards meeting the statutory climate targets. The main target is a CO2 reduction of 95% below 1990 by 2050, with an intermediate target of 49% by 2030. In addition, the Act identifies a secondary target of 100% CO2-neutral electricity

[11] https://www.ipcc.ch/sr15/

[12] https://www.nature.com/articles/s41586-019-1364-3

[13] The Green Deal has not been included here. It will be covered in the biennial update.

[14] https://www.climatechangenews.com/2019/07/16/climate-plays-decisive-role-ursula-von-der-leyen-annointed-eu-chief/

production by 2050.

The draft National Climate Agreement presented on 21 December 2018 contains agreements with various sectors on what they will do to help achieve the climate targets. The participating sectors are electricity, industry, built environment, traffic and transport, and agriculture. July 2019 saw the presentation of the government's detailed plans for implementing the objectives of the Climate Act, based on the draft National Climate Agreement.

Agreements about promoting sustainable energy and energy efficiency are set out in the Energy Agreement for Sustainable Growth, which dates from 2013. The government made these agreements with employers, trade unions, environmental organisations and other parties. The Energy Agreement for Sustainable Growth is valid until 2020. The National Climate Agreement takes precedence.

The OECD Guidelines expect investors to establish targets and intermediate objectives on climate impact for their portfolios that are aligned with the Paris Climate Agreement. This interpretation was recently confirmed by the Dutch National Contact Point for the OECD Guidelines for Multinational Enterprises, following a notification by a group of NGOs concerning ING's climate policy (see also the Appendix).[15]
In keeping with this interpretation, 15 Dutch financial institutions have pledged to analyse the impact of their entire investment portfolio by signing the Spitsbergen Ambition. This ambition has been carried over to the National Climate Agreement in the form of a 'commitment of the financial sector', which was signed by 50 financial institutions, including 16 insurers. The signatories undertake to report publicly on the carbon footprint of their relevant financing and investments from 2020 onwards. They also commit to announcing plans of action by 2022 at the latest for meeting the Paris Agreement's targets for reducing CO2 emissions. The financial sector is the first sector to support the National Climate Agreement and hopes that other sectors will follow its good example.[16]

3.2 Climate risk monitoring framework

In addition to climate impact assessments, the Dutch central bank DNB expects financial institutions to take climate risks into account. This factor will play an increasing role in DNB's oversight.[17]

There are also international initiatives to promote analysis and reporting of climate risks. The most important one is the Task Force on Climate-related Financial Disclosures (TCFD) set up by the Financial Stability Board (FSB), the international body that monitors and makes recommendations about the global financial system.
The TCFD[18] was tasked by the FSB to draw up a framework for climate-related financial disclosure by financial and non-financial institutions. Both investee companies and banking clients consider the TCFD reports to be conducive to dialogue on climate risk management.

[15] https://www.oecdguidelines.nl/latest/news/2019/04/19/final-statement-dutch-ncp-specific-instance-4-ngos-versus-ing-bank

[16] For more information and background, see https://www.klimaatakkoord.nl/actueel/nieuws/2019/07/10/financiele- sector-ondertekent-klimaatakkoord

[17] DNB, Visie op toezicht 2018-2022. https://www.dnb.nl/toezichtprofessioneel/visie-op-toezicht/index.jsp.
See also: DNB, Op waarde geschat? Duurzaamheidsrisico's en -doelen in de Nederlandse financiële sector. January 2019; DNB, An energy transition risk stress test for the financial system of the Netherlands. 2018; DNB, Nederlandse financiële sector veilig achter de dijken? Oktober 2017.

[18] https://www.fsb-tcfd.org/

4. Due diligence

If an insurer is investing or considering investing in value chains relevant to climate change, the OECD Guidelines stipulate that it must undertake a due diligence process.

4.1 Embedding RBC measures in policy

If climate change is a significant factor in the insurer's investment portfolio, adequate policy measures should be adopted to manage the related ESG risks.

Points of concern for institutional investors can be found in the 'Investor actions' text blocks in the Document.[19]

To determine the total climate footprint of an investment portfolio, the following can be considered:

1. data on the emissions of individual investments (and preferably on expected future emissions, including a company's investment plans). Insurers can use CO2 emissions data to determine the total climate footprint of their investment portfolio. It is important for them to look at:
   a. an investee company's direct CO2 emissions produced by sources within its own organisation (scope 1)
   b. an investee company's indirect CO2 emissions resulting from the generation of electricity or heat that it purchases or consumes (scope 2)
   c. CO2 emissions throughout the lifecycle of any products that the investee company buys, manufactures and/or sells (scope 3)[20];
2. evidence-based analysis of how international CO2 reduction targets translate into sector- or company-specific targets;
3. sector-wide agreements on how to combine and report these different data to produce comprehensible and comparable reports.

A number of national and international initiatives can be helpful in this respect:

1. the Carbon Disclosure Project (CDP) has developed a system that enables member companies to disclose their total climate footprint;[21]
2. the Science Based Targets Initiative (SBTI) helps investors and companies to use their CO2 emissions as a basis for setting targets aligned with international commitments under the Paris Agreement;[22]
3. the Dutch Platform Carbon Accounting Financials (PCAF), in which affiliated financial institutions have agreed on the first version of a methodology for measuring and reporting their climate footprint. The methodology will be updated regularly in line with new insights and developments, such as recommendations from the SBTI.[23]

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[19] Pages 21 and 22: https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf

[20] If available: scope 3 data are difficult to measure and is not yet available for all companies.

[21] www.cdp.net. The CDP charges companies to submit their emissions data. This may well lead to fewer companies reporting their emissions, see https://www.cdp.net/en/info/admin-fee-terms-and-conditions

[22] www.sciencebasedtargets.org

[23] http://carbonaccountingfinancials.com/wp-content/uploads/2018/11/PCAF-report-2018.pdf
One option is for insurers to help develop the PCAF methodology or at least apply it in their own portfolio, assess and publish the climate footprint of their investments and identify associated reduction targets. Insurers can then use these targets to guide decisions on whether to invest in and engage with companies, based on underlying emissions data from individual investments.
Insurers that outsource actual investment to fund managers could use participation in PCAF or similar initiatives as one of their selection criteria.

4.2 Identifying investment criteria

It is advisable to work with specific investment criteria under this theme. The Parties have a number of suggestions in that respect.[24]

Broadly speaking, there are two ways in which an insurer can reduce the climate footprint of its investment portfolio:

- start a dialogue with CO_2-intensive companies in an effort to persuade them to reduce their emissions. If this is unsuccessful, exclusion is the logical next step;
- exclude the most CO_2-intensive companies in the portfolio (in stages).

If an insurer decides on a strategy of engagement, it can use internationally agreed targets as a guide. For example, it can require investee companies to publish transparent, objective and measurable reduction targets. These targets can then be used to determine whether a company's climate policy is consistent with the Paris Agreement's long-term goal of limiting the global temperature increase to 1.5°C.

The Parties suggest a number of topics for engagement. Insurers can ask investee companies to:

- publish their direct and indirect greenhouse gas emissions, including evidence-based plans to reduce them (e.g. through the TCFD or PCAF);
- define criteria for excluding or phasing out the most CO_2-intensive fossil fuels. Examples include the extraction of thermal coal, tar sands, shale gas and oil (from exploration and extraction to transport and use) or oil drilling in environmentally sensitive areas (such as the Arctic);
- establish a maximum percentage for the extraction of these fuels;
- establish a minimum percentage of new oil and gas and energy company investments to be allocated to renewable energy (rather than oil and gas);
- adhere to a certain maximum percentage of extraction from these fuels;
- undertake not to contribute to deforestation.

Engagement is a specialist, labour-intensive strategy. Smaller insurers will usually outsource strategies of this kind to external parties, which negotiate on behalf of the insurer. Insurers can also decide to exclude certain activities outright.

Engagement also depends heavily on expert scientific opinion and data that are not always readily available, and is heavily influenced by the evolving body of knowledge about a topic. The Parties have therefore considered criteria for potentially excluding the most CO_2-intensive companies and have a number of suggestions in that respect[25]:

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[24] The NGO Party wishes to emphasise that it regards these as minimum criteria for this theme (e.g. the normative lower limit).

[25] The following suggestions can be extended at the insurer's discretion and combined with international guidelines and standards (such as EU legislation, the National Climate Agreement, etc.).

A. Thermal coal-mining and energy companies
Thermal coal is one of the most CO_2-intensive forms of fossil fuel and there are suitable alternatives. The Parties therefore recommend that insurers exclude any investment in companies active in mining or generating energy from thermal coal step by step such that they will have phased out their stake in thermal coal-mining entirely by 2025:

- step 1: exclude all companies that derive more than 25% of their total revenue from the extraction of thermal coal as well as energy companies in which thermal coal accounts for more than 25% of the energy mix;
- step 2: exclude all companies that derive more than 10% of their total revenue from the extraction of thermal coal as well as energy companies in which thermal coal accounts for more than 10% of the energy mix;
- step 3: exclude all companies that derive more than 5% of their total revenue from the extraction of thermal coal as well as energy companies in which thermal coal accounts for more than 5% of the energy mix.

B. (Unconventional) Oil and gas companies
Although oil and gas companies make a significant contribution to global CO_2 emissions, suitable alternatives are not always immediately available for certain purposes. It is therefore advisable to begin by excluding the most CO_2-intensive forms of oil and gas extraction and then exclude conventional oil and gas producers, step by step.
It is also advisable to completely exclude companies undertaking oil and gas extraction in environmentally sensitive areas, such as the Arctic, in view of the significant environmental risks associated with extraction in such fragile regions, where conditions are unstable and difficult to monitor.

- step 1: exclude all companies that derive more than 25% of their total revenue from tar sand oil extraction and all companies deriving more than 50% from shale oil and gas production.
- step 2: exclude all companies that derive more than 10% of their total revenue from tar sand oil extraction and all companies deriving more than 25% from shale oil and gas production.
- step 3: exclude all companies that derive more than 0% of their total revenue from tar sand oil extraction and all companies deriving more than 10% from shale oil and gas production.
- step 4: exclude all companies that derive more than 50% of their total revenue from conventional oil and gas production.
- And so on.

C. Energy-intensive companies (e.g. car industry, housing, agriculture, chemicals):
In view of the different sectors covered by this category, insurers are advised to exclude the most CO_2-intensive companies per sector, step by step. One strategy would be to exclude the five most CO_2-intensive companies in each of the above sectors. It is important to look not only at the level of CO_2 emissions generated by these companies' production processes, but also at the CO_2 emissions caused by the company's products/services. This information and the company's plans to reduce its overall CO_2 emissions offer an accurate indication of its ability to successfully complete the transition to a low-carbon economy.

4.3 Conducting a risk analysis

The insurer must carry out an analysis of its climate footprint (and changes in that footprint) and screens its investment portfolio for climate-related risks to determine:

1. whether the climate impact of its portfolio is making (fast) enough progress towards meeting internationally agreed targets, in particular the 1.5°C target under the Paris Agreement; if this is not the case, the insurer identifies the investments that are lagging

behind;
2. whether investee companies are meeting the selected criteria in section 4.2.

4.4 Identifying and prioritising risks

It is crucial to prioritise those investee companies that lag behind and the risks revealed by screening. The gravity of climate-related risks in the portfolio is determined by:

- materiality, for example in terms of Assets under Management (AuM) or Value at Risk (VaR);
- saliency, for example in terms of (high) carbon emitters per sector (based on CO2 footprint or CO2 intensity);
- long-term risk of stranded assets;
- long-term risk based on a (low) energy transition score.[26]

If the investee company disregards the criteria such that the climate is seriously compromised, the insurer must consider its options. On the one hand, it can use leverage by engaging with the company in an attempt to induce it to end the relevant practice. On the other hand, it can rule out investing in the company in advance.

4.5 Implementing policy to minimise impact and to mitigate identified risks

Depending on the screening results and how they are interpreted, the insurer may:

1. actively adapt its voting behaviour accordingly;
2. engage with the companies concerned;
3. exclude the companies concerned;
4. choose Impact investing.

By **voting (1)** at shareholders' meetings, the insurer can influence the policy of companies in which climate impact and risks are a factor. The insurer must, of course, decide on its own voting behaviour, which can range from voting against management decisions that erode the value of the investment to introducing or supporting resolutions aimed at reducing the company's climate risks. The insurer can also join collective climate shareholder resolutions, such as those initiated by Follow This or ShareAction.

Engagement (2) on climate change involves the insurer entering into a dialogue with investee companies that do not comply with the insurer's policy. The aim is for the company to make structural improvements. There are many different ways to achieve effective engagement:

- develop engagement activities independently;
- join an existing engagement provider;
- join an engagement alliance or network, for example PRI, Climate Action 100+ or Follow This.[27]

In engagement, it is advisable to work with as many like-minded (institutional) investors with regard to one and the same company. The greater the investment capital they represent, the more leverage they will have on the company in question. For more information,

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[26] An indicator that some insurers use to show a company's status with regard to energy transition; the insurer considers the company's investment plans and other factors and then examines whether those plans have been implemented. The data, often quantitative in nature, produce a score that the investor then uses to factor the company's long-term plans into its assessment.

[27] PRI: https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment
Climate Action 100+: https://climateaction100.wordpress.com/
Follow This: https://follow-this.org/
ShareAction: https://shareaction.org/agm-activism/

see the Document.[28]

Examples of engagement questions:

- What is the company's policy on reducing its CO2 emissions? Is this reduction aligned with the Paris climate targets (maximum 2°C and 1.5°C temperature increase)?
- Is the company focusing as much as possible on projects using renewable energy sources instead of fossil fuels in its future investments?
- How is the company/portfolio positioned to achieve the 2°C (or 1.5°C) scenario under the Paris Agreement??
- How is this being evaluated?
- Has the company published these reduction targets?

If engagement fails to deliver satisfactory results within a reasonable period of time, e.g. three years, or if a company turns out to be involved in practices that are already on the insurer's exclusion list, the business may be **excluded (3)** from investment.

Impact investing (4) may refer to investments in green bonds and/or climate bonds, for example. Insurers are advised to impose stringent requirements on such investments to prevent 'greenwashing', for example certification by means of a Second Party Opinion (SPO) and the 'in-development' criteria of the EU Action Plan. In addition, impact investing is possible in renewable sources of energy and energy-saving solutions, real property with CO2-neutral emissions, biodiversity, projects involving the removal and sequestration of CO2 from the atmosphere, and so on.

4.6 Measures aimed at preventing and/or mitigating actual and potential adverse impacts

The purpose of due diligence is to identify and prevent risks, but it is still possible for an investee company to have an adverse impact on the climate.

Insurers usually hold a minority stake in investee companies and are therefore unlikely to have 'contributed to' an adverse impact on the climate (the term used in the OECD Guidelines). Nevertheless, in most cases it is possible to establish that an insurer's investment is 'directly linked' to the adverse impact caused by an investee company (again, the term used in the OECD Guidelines). In the latter case, the insurer is expected to use leverage to persuade the company to take appropriate action. For more information, see the Document.[29]

4.7 Monitoring risks and the results of the mitigation strategy

The due diligence policy should be monitored at regular intervals. It is advisable to pay particular attention to:

- the way in which the established climate-change criteria have been effectively applied when screening investments for theme-related risks and the choices to which this has led;
- progress on and results of the chosen engagement and/or mitigation strategy concerning climate change.

[28] See Box 7 on page 27: https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf

[29] See Figure 1, 'Addressing adverse impacts under the OECD Guidelines for Multinational Enterprises' on page 35: https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf

5. Accountability and reporting

The OECD Guidelines require the insurer to report publicly on its due diligence policy and associated results at regular intervals, preferably annually. The OECD Guidelines describe this as:

- knowing: tracking the insurer's performance against its own investment policy;
- showing: publicly communicating the same. The Document sums up the procedures for this step.[30]

The insurer identifies the most appropriate indicators for reporting on its efforts to address climate change in its investment policy.

An insurer can also report on its engagement with or exclusion of companies, thereby sending other investors, the companies in question and its own customers an important signal.

With regard to climate change, insurers can adopt some or all of the recommendations issued by the Task Force on Climate-related Financial Disclosures (TCFD)[31] as a guideline for accountability.

The European Commission has developed a 'green' taxonomy, i.e. an EU-wide classification system that clarifies what is meant by 'green' investments. The overarching aim is to secure private investment in environmentally sustainable economic activities. Parties offering green financial products must apply this taxonomy and report on how they do so. The EU agreed on the green taxonomy in December 2019.[32]

This section will be elaborated in more detail over the term of the Agreement (see Section 5 of the Agreement).

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[30] See the 'Investor actions' on page 43: https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf.

[31] TCFD: https://www.fsb-tcfd.org/
TCFD-based reporting is already mandatory for all PRI signatories: https://www.unpri.org/news-and-press/tcfd-based-reporting-to-be- come-mandatory-for-pri-signatories-in-2020/4116.article

[32] https://ec.europa.eu/commission/presscorner/detail/en/ip_19_6793,
https://ec.europa.eu/commission/presscorner/detail/en/QANDA_19_6804

Appendix

Due diligence pursuant to the OECD Guidelines

The OECD Guidelines require companies to establish and maintain 'a system of environmental management appropriate to the enterprise' (Chapter VI Environment, paragraph 1). It should include adequate and timely information (1.a). It should establish measurable objectives and, where appropriate, targets for improved environmental performance and resource utilisation, consistent with relevant national policies and international environmental commitments (1.b). There should be regular monitoring and verification of progress toward environmental, health, and safety objectives or targets (1.c).
The Guidelines assume that the 'precautionary approach' should also be implemented at the level of enterprises. The Commentary cites as a basic premise that enterprises should act 'proactively' to avoid environmental damage resulting from their activities and in their supply chain.

This means that the OECD Guidelines expect companies to set objectives and intermediate targets aligned with those of the Paris Agreement and ensure that they remain consistent with the Paris targets if the latter are tightened up. This interpretation was recently confirmed by the Dutch National Contact Point for the OECD Guidelines for Multinational Enterprises, following a notification by a group of NGOs concerning ING's climate policy.[33]

The OECD Guidelines require not only that companies have objectives and targets regarding their environmental impact, but also that they report on this publicly (Chapter III Disclosure, paragraph 4). Also relevant is Chapter VIII Consumer Interests, which specifically states that enterprises must 'provide accurate, verifiable and clear information', including on the environmental friendliness of goods and services, 'to enable consumers to make informed decisions' and specifically 'in a manner that facilitates consumers' ability to compare products' (Chapter VIII, paragraph 2).

This final point favours co-development by financial institutions of methods for measuring the climate footprint of their investments and for identifying reduction targets. This is what the PCAF does.[34] If financial institutions all use the same methodology, consumers can compare and make informed decisions.
One option is for insurers to help develop the PCAF methodology or at least apply it in their own portfolio, assess and publish the climate footprint of their investments and identify associated CO2 reduction targets. Insurers that outsource actual investment to fund managers could use participation in PCAF or similar initiatives as one of their selection criteria.

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33 https://www.oecdguidelines.nl/latest/news/2019/04/19/final-statement-dutch-ncp-specific-instance-4- ngos-versus-ing-bank
34 http://carbonaccountingfinancials.com/wp-content/uploads/2018/11/PCAF-report-2018.pdf