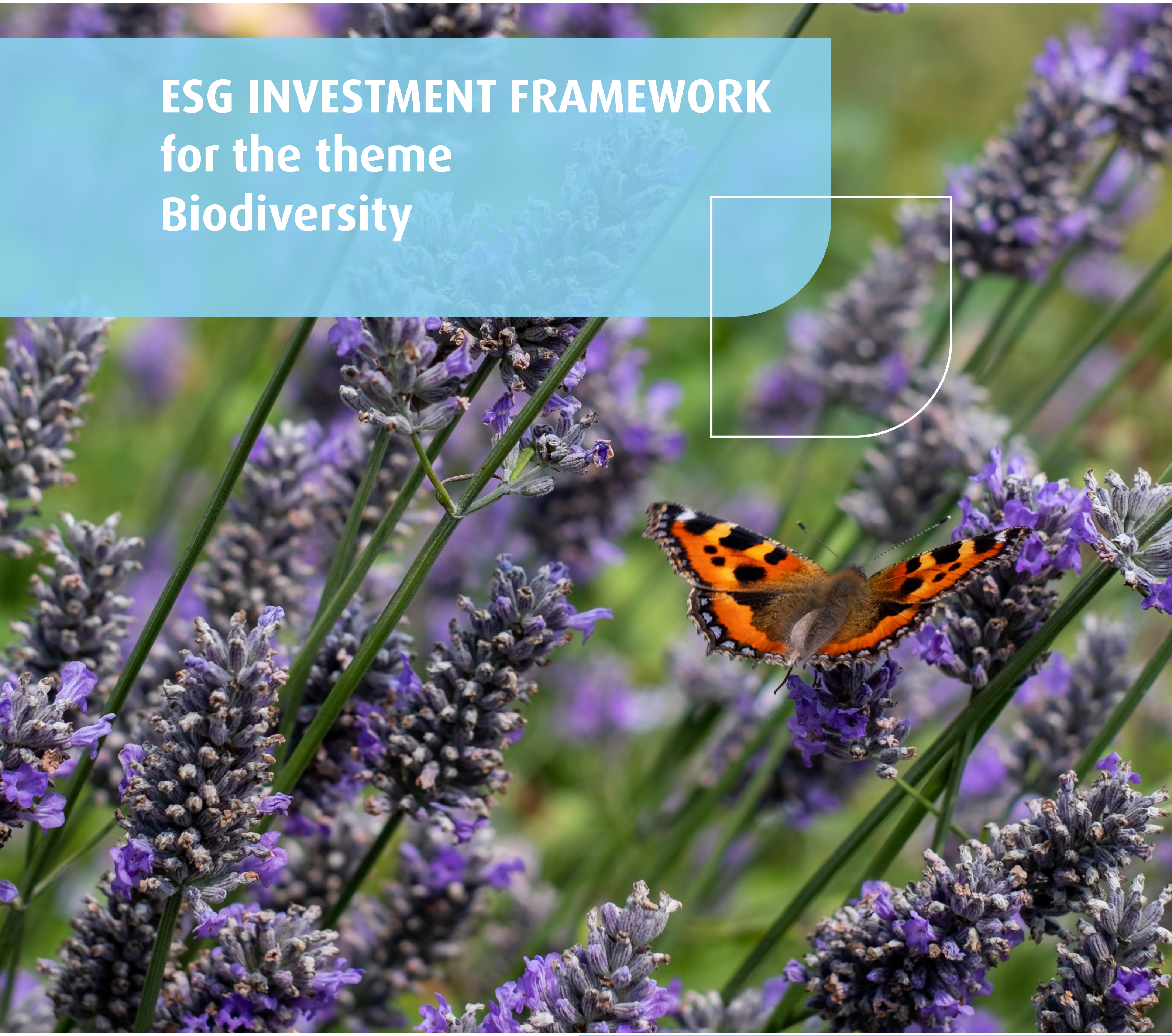
Insurance Sector

International RBC | SER



ESG INVESTMENT FRAMEWORK for the theme Biodiversity

Framework | March 2022

VERBOND VAN VERZEKERAARS

Save the Children

WORLD ANIMAL PROTECTION

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Preamble to the ESG thematic frameworks

On 5 July 2018, the insurers affiliated to the Dutch Association of Insurers and the Association of Dutch Health Insurers, concluded the Agreement on International Responsible Investment in the Insurance Sector[1] (hereafter: "the Agreement") with the government, NGOs and a trade union (hereafter: "the Parties"). The aim of the Agreement is to achieve a positive impact in the areas of the environment, social conditions and corporate governance (hereafter: "ESG"[2]) and to strive to mitigate negative impacts.

Insurers acknowledge that they are responsible for acting in accordance with international guidelines. These are:

- the UN Guiding Principles on Business and Human Rights (hereafter: "UNGPs"), which are the international guiding framework for human rights and business[3];
- the OECD Guidelines for Multinational Enterprises (hereafter: "OECD Guidelines")[4]

The OECD Guidelines are one of the most important internationally recognised guidelines for International Responsible Business Conduct (IRBC). The guidelines cover a wide range of themes, such as human and labour rights, the environment, corruption, taxation, health and safety. Both normative frameworks form the basis for the arrangements made in the Agreement.

Based on the international guidelines, insurers are expected to draw up sector and theme-specific investment policies. This arrangement is also laid down in the Agreement. The policy sets out the ESG principles and standards that an insurer uses when investing in sectors and themes that are assessed as high-risk and relevant.[5] Insurers are also expected to identify, prevent or reduce the (potential) negative impact of their actions and to account for how the risks were dealt with. This also applies to the 'supply chain', such as the companies that are linked to the businesses invested in.

In the Agreement, it was agreed that the Parties will seek possibilities for improvements in investment policy on the basis of ESG themes. This includes themes that are not or insufficiently included in international guidelines.[6] This framework relates to the development and implementation of responsible investment policies for the theme of **Biodiversity.**

Due diligence

At the heart of any ESG theme-related framework are tools to assist in conducting due diligence on the investment portfolio.
On the basis of the OECD guidelines, a manual entitled Responsible Business Conduct for Institutional Investors has been published (hereafter: "the Manual").[7] The Manual describes due diligence approaches that can be used by institutional investors, including insurers. The steps in the due diligence process are clearly stated in the guidance to the OECD Guidelines Manual.[8] This is discussed in Chapter 4.

1 https://www.imvoconvenanten.nl/en/insurance.
2 In accordance with the common international term: Environmental, Social and Governance (ESG).
3 https://www.ohchr.org/documents/publications/GuidingprinciplesBusinesshr_eN.pdf
4 OECD Guidelines (original, English): https://www.oecd.org/daf/inv/mne/48004323.pdf. OECD Guidelines (Dutch translation): file:///H:/Downloads/oeso-richtlijnen-nlse-vertaling-def-webversie.pdf.
5 'Relevant' means that the ESG theme is applicable to your investments. The Agreement does not provide a framework for when a subject is relevant to the insurer. It is up to the insurer to determine what is relevant based on the screening of ESG risks that follows from ESG due diligence.
6 The Agreement covers the themes of animal welfare, children's rights, land rights, climate change and arms and arms trafficking.
7 https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf
8 https://www.oecd.org/investment/due-diligence-guidance-for-responsible-business-conduct.htm and https://www.startmetoesorichtlijnen.nl/.

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.

Contents

1. Introduction

This framework was developed for the annual theme of biodiversity in 2021 and is developed for insurers who are part of the IRBC Agreement.

Biodiversity is defined in the Convention on Biological Diversity (UN, 1992) as: "The variability among living organisms from all sources including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems". This is also referred to as species diversity.

Biodiversity is a relevant and urgent social issue, also for the insurance sector. The current rate of loss of species (plants and animals) is having an unprecedented impact on how, for instance, we live and eat. Many of the companies in which insurers invest are directly or indirectly dependent on biodiversity and ecosystem services.

Sustainable Development Goals, including numbers 12[9], 14[10] and 15[11], state the global ambition for curbing biodiversity loss.

Causes of biodiversity loss

The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES)[12] lists five direct causes of biodiversity loss:

1. Land use change, including deforestation, intensive agriculture, intensive fishing methods, urbanisation and the construction of infrastructure mean that there are fewer and smaller habitats for plants and animals, which leads to a decrease in pollination, soil fertility and the water and air purification capacity of ecosystems.
2. Direct exploitation of animals and plants – for example through overfishing, trade in indigenous animals and plants or hunting – leads to the decline of specific species, which in turn has consequences for the entire food chain.
3. Climate change leads to shifts in climate zones that make large areas unsuitable for agriculture and vegetation.
4. Pollution – for example by direct emissions of pollutants to land, water or air from industry, by nitrogen emissions from cars or by nitrogen, phosphate or pesticide leaching from agriculture – is degrading large areas and many water and sea areas have become 'dead' zones devoid of life.
5. The spread of invasive species, for example by land or sea transport, leads to the displacement of local species, disrupting natural processes and affecting soil and water quality.

Figure 1 below, taken from the IPBES report (see footnote 12) provides a schematic overview of both causes and examples of consequences of biodiversity loss.

9 SDG 12: Ensuring responsible production and consumption, see https://sdgs.un.org/goals.
10 SDG 14: Protecting life below water, see https://sdgs.un.org/goals.
11 SDG 15: Protecting life on land, see https://sdgs.un.org/goals.
12 https://ipbes.net/global-assessment.

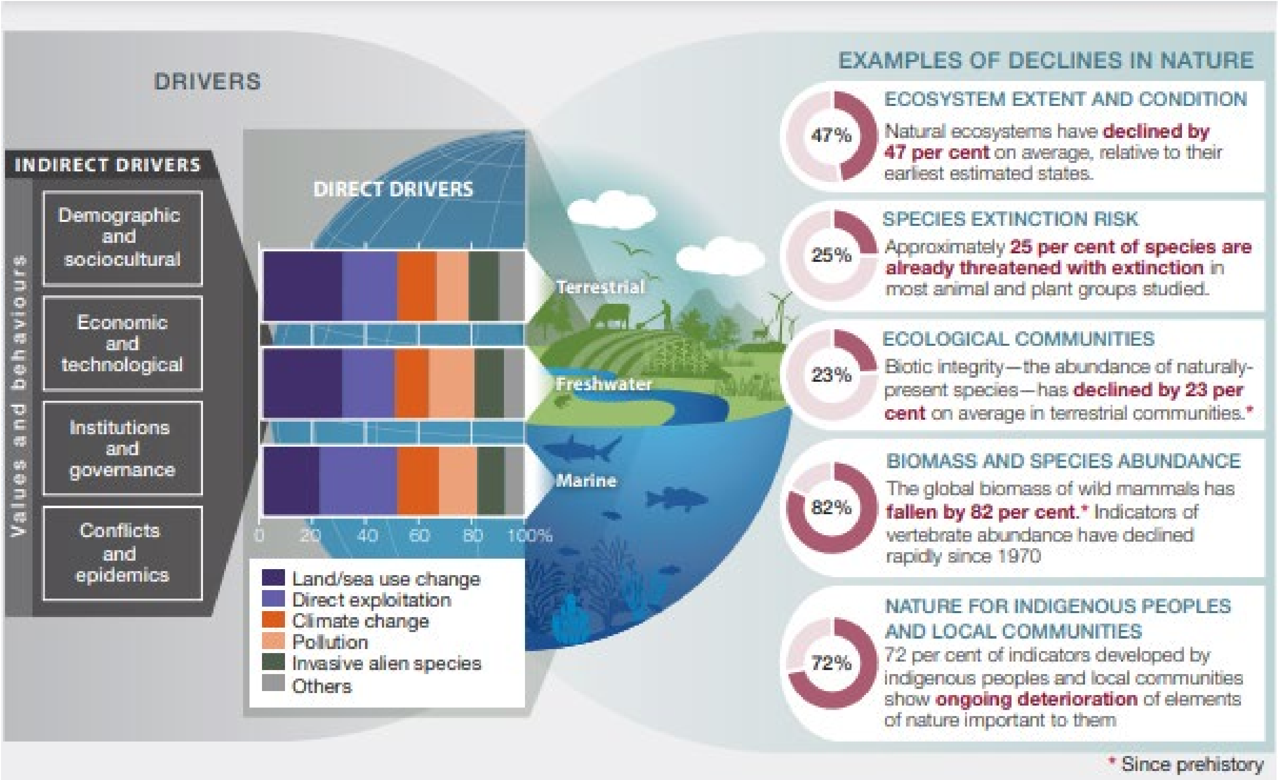

Figure 1: Causes and consequences of biodiversity loss from IPBES report (see footnote 9)

This thematic framework starts by outlining the relevance to insurers in Chapter 2, Chapter 3 describes the international, European and national frameworks on which policy and legislation are based, Chapter 4 discusses the ESG due diligence steps that apply specifically to this theme, and Chapter 5 provides guidance on reporting and accountability regarding the theme of biodiversity.

2. Relevance for insurers

In June 2020, the Dutch Central Bank and the PBL Netherlands Environmental Assessment Agency published the report 'Indebted to nature - Exploring biodiversity risks for the Dutch Financial Sector'.[13] In this report, the regulator shows the relationship between the Dutch financial sector and the loss of and damage to biodiversity, and the reputation and transition risks this entails for investors and financiers. For example, Dutch banks, insurance companies and pension funds invest 97 billion euros in companies involved in severe environmental abuses.

The Dutch Central Bank (DNB) states that financial institutions should work on identifying the risks associated with biodiversity loss for their portfolio. Conversely, analysis and mitigation based on the OECD guidelines should be used (see Chapter 4) to address social risks caused by investments. Financial and social risks increasingly overlap, as the DNB-PBL report also demonstrates.

Figure 2: Ecosystem services

13 https://www.dnb.nl/media/4c3fqawd/indebted-to-nature.pdf.

2.1 Impact on people and society

According to experts, we are currently in the sixth wave of extinction that is also threatening human life on earth[14]. The authoritative IPBES report[15] shows that 1 million species are at risk of being lost in the upcoming years. In addition, the DNB-PBL report mentioned previously shows that 36% of the surveyed portfolios of Dutch banks, insurers and pension funds depend heavily or very heavily, through their investments, on the ecosystem services provided by biodiversity, such as wood, pollination or soil fertility.[16] Figure 2 above provides an overview of all the ecosystem services that nature and biodiversity provide to society.

Biodiversity is recognised in recent studies as the basis for (human) life. The loss of biodiversity through human activity is seen as one of the greatest risks to our society and economy.

> The impact of financial institutions on biodiversity loss is mainly through investments, insurance and loans, and to a very limited extent through their own operations. ASN Bank is the first bank worldwide to have calculated the biodiversity impact of its investments using the 'Biodiversity Footprint for Financial Institutions' (BFFI) framework, which boils down to the destruction of biodiversity on a surface area the size of the Dutch provinces of Noord and Zuid-Holland combined.[17]

2.2 Impact for the insurer

Agricultural commodities such as wheat, cotton or fruit crops are directly dependent on natural processes such as pollination or regulating services such as soil fertility or water purification. A decrease in harvests or loss of quality not only affects the agricultural sector, but the entire chain of businesses, such as the packaging industry, transport companies, food processing companies and supermarkets and retailers. Reduced biodiversity can therefore have major financial risks, including for the long-term value creation of insurers' investments. Specifically for insurers, biodiversity loss also causes risks related to damage to property and persons, for example due to contamination of (drinking) water by chemicals from a factory.[18]

In addition, insurers invest in businesses that can have a direct (through production processes) or indirect (through the supply chain) negative impact on biodiversity, for example because they contribute to deforestation, soil depletion, overexploitation of natural resources and organisms (e.g. overfishing) or environmental pollution. This also creates risks for insurers, because for example, a business receiving investment:

- may receive negative reviews, lose clients or face consumer bans following an environmental scandal (reputational risk);
- may fail to keep pace with changing consumer preferences, technological developments or government regulations (transition risk);
- may be held liable for biodiversity loss or damages (legal risk), which can lead to a financial risk;
- may face risks of business continuity due to loss of production opportunities (bankruptcy risk or financial risk).

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14 https://www.theguardian.com/environment/2017/jul/10/earths-sixth-mass-extinction-event-already-underway-scientists-warn.
15 https://ipbes.net/global-assessment.
16 https://www.dnb.nl/en/actueel/dnb/older-bulletins/dnbulletin-2020/indebted-to-nature/.
17 https://www.dnb.nl/media/cy2p51gx/biodiversity-opportunities-risks-for-the-financial-sector.pdf.
18 Idem.

In addition to businesses, insurers invest in government bonds and bonds issued by, for example, semi-public institutions such as the World Bank. The extent to which governments have adequate policies on biodiversity, fulfil their supervisory function towards the business community and commit to ecological restoration varies greatly. Biodiversity loss can also bring financial risks for such governments in the long run, for example in countries where climate change will significantly alter or even render their own agricultural sector impossible.

In addition to the risks of biodiversity loss for insurers, there are also increasing opportunities for insurers to contribute to biodiversity restoration through their investments. These include businesses that make a positive contribution to ecosystem services and offer solutions for reducing biodiversity loss.[19]

2.3 Business sectors

The impact of businesses on biodiversity differs from sector to sector. The figure below provides an overview of the contribution of various sectors. This shows that the retail sector has a major impact because, as the final link in the food chain, it affects biodiversity indirectly through, for instance, agricultural production, transport, food processing and the production of packaging materials.

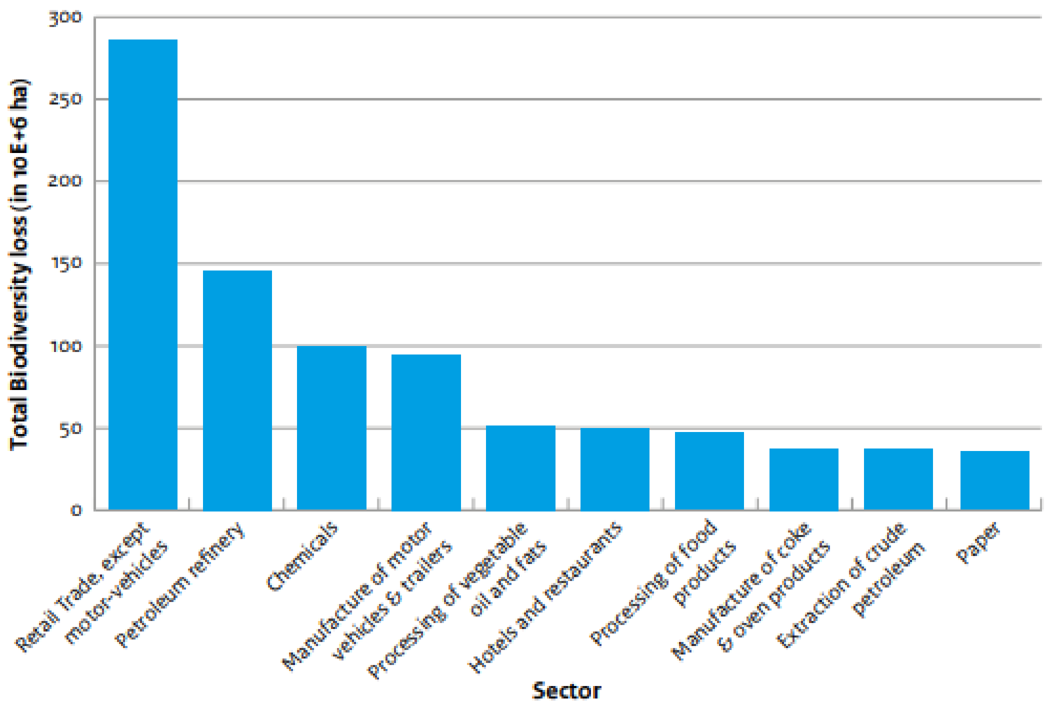

Figure 3: Overview of sectors (BFFI 2020).[20]

Impact measurement

The impact on biodiversity in Figure 3 was measured using the Biodiversity Footprint for Financial Institutions (BFFI). This measure was developed by Pré, CREM and ASN Bank, and is being further developed in the Partnership for Biodiversity Accounting for Financials (PBAF). The method measures the 'potentially disappeared fraction' of species. Recently, the biodiversity footprint for the 1,500 largest multinationals was determined using the BFFI framework.

19 Idem, see Chapter 4.
20 https://www.government.nl/documents/reports/2021/07/29/biodiversity-footprint-for-financial-institutions.

In addition, a number of institutes in France, led by Iceberg Datalabs and I-care, have developed the Corporate Biodiversity Footprint (CBF). The CBF gives a similar measure, but measures in 'mean species abundance'.[21]

Financial institutions can also visualise the impact and dependency of different sectors on biodiversity with tools such as ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure), set up by the Natural Capital Finance Alliance, and IBAT (Integrated Biodiversity Assessment Tool).

Several international working groups are currently working on streamlining methods and data to determine impact and dependence on biodiversity. The BFFI method under the PBAF platform offers the most robust and developed measurement method at present and is involved in the harmonisation of various measurement methods. The European Align project[22] supports businesses and financial institutions in standardising the measurement of nature and biodiversity impact.

21 https://www.i-care-consult.com/en/2021/07/20/we-continue-to-develop-the-corporate-biodiversity-footprint-methodology/.
22 https://ec.europa.eu/environment/biodiversity/business/align/index_en.htm.

3. Reference framework

This chapter outlines the frameworks at the international, European and national level. There are many areas of legislation that apply to biodiversity, for example the Birds and Habitats Directives[23] or Natura 2000 legislation[24], and in addition, climate legislation is relevant given the significant relationship between climate change and biodiversity loss. It would be excessive to name all – potentially – relevant legislative and policy frameworks in this thematic framework. Appendix 2 discusses in detail the global, European and Dutch legislative frameworks.

Legislation and policy relating to biodiversity and limiting biodiversity loss in the broad sense are being developed on various fronts, but do not yet have the same status as, for example, the Paris Climate Agreement with clear global goals that can be translated into a European and national context. It is expected that such a global treaty with targets will be agreed in the near future.

3.1 Legislative frameworks

At global level, the Convention on Biological Diversity (CBD)[25] provides the main framework. The CBD has three main objectives:

- the conservation of biological diversity;
- the sustainable use of the components of biodiversity; and
- the fair and equitable sharing of benefits arising from the utilisation of genetic resources.

The CBD is currently developing a new strategic framework, the Post-2020 Global Biodiversity Framework[26], which is likely to be adopted at COP15 in April/May 2022. A separate report has also been published by the CBD on the role and expected actions of financial institutions.[27]

At European level, the European Biodiversity Strategy for 2030[28], as part of the European Green Deal, provides the main frameworks. European legislation provides strict guidelines for activities that affect biodiversity. The Biodiversity Strategy means that the European Commission is strengthening the existing biodiversity framework and is aiming for improved implementation of European environmental legislation. This also affects the financial sector, for example through the Sustainable Finance Disclosure Regulation (SFDR)[29] and the Taxonomy Regulation. This regulation specifies which business activities make a positive contribution to biodiversity restoration and may be labelled as sustainable by financial institutions. An important aspect is that financial institutions must indicate that sustainable investments comply with the 'do no significant harm' (DNSH) principle, based on the EU's environmental objectives. In addition, financial institutions must indicate how they take sustainability risks, including risks of biodiversity loss, into account in their financial decisions.

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23 https://www.bij12.nl/onderwerpen/natuur-en-landschap/natuurwetten-en-regelgeving/europese-richtlijnen-en-verdragen/vogel-en-habitatrichtlijn/.
24 https://www.rijksoverheid.nl/onderwerpen/natuur-en-biodiversiteit/natura-2000.
25 https://www.cbd.int/convention/text/.
26 https://www.cbd.int/conferences/post2020.
27 cbd-financial-sector-guide-f-en.pdf (circl.nl).
28 https://ec.europa.eu/environment/strategy/biodiversity-strategy-2030_en.
29 https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/sustainability-related-disclosure-financial-services-sector_en.

Biodiversity will also become part of the Corporate Sustainability Reporting Directive (CSRD, proposed by the European Commission).[30] The first outlines will be available in early 2022. This directive will be very important as it describes the grey or polluting activities and investments that are harmful to, for instance, biodiversity.

In order to comply with the international frameworks, national legislation will also be tightened. In a letter to the House of Representatives,[31] the government informed the House about Dutch efforts to halt the loss of biodiversity and to promote recovery.

3.2 Biodiversity risk regulatory framework

The national regulators AFM and DNB recognise the importance of sustainability and specifically the effects of biodiversity loss for the financial sector as being material. Currently, the focus is on awareness and the announcement that biodiversity will be an important issue for regulators in the near future. At present, no concrete actions are associated with it with a specific link to biodiversity. However, biodiversity is included in the larger picture of sustainability and the consequences of climate change.

From DNB, the information sharing mainly takes the form of a broad investigation into the impact of biodiversity loss[32] and advising on how to prevent it.[33] In its recently published Sustainable Finance Strategy, DNB indicated that it would translate these explorations into specific policy in the period ahead. From the AFM, there is a vision on sustainability[34] regarding the main issues that the AFM regulates. At the end of 2019, an AFM foresight study on non-financial value creation highlighted the importance of reporting on various topics, including biodiversity.[35] It is expected that in addition to the effects of climate change, regulators will increasingly examine the effects on biodiversity loss and incorporate this into their regulatory framework.

3.3 Sector initiatives

In anticipation of stricter legislation with binding targets, a growing group of financial institutions has united in the Finance for Biodiversity Pledge with the ambition of halting the loss of nature and biodiversity during this decade.[36] This initiative is a joint effort to measure biodiversity impacts and set targets. In addition, the Taskforce on Nature-related Financial Disclosures is working to manage and account for nature-related risks.[37] There are a growing number of international and European initiatives that insurers can join in order to start mapping and mitigating biodiversity damage, or to promote biodiversity restoration. This thematic framework does not provide an exhaustive list of initiatives, nor does it advise on which initiative is most appropriate. The answer to that question also depends on the size and scope of the investment portfolio. Nevertheless, we recommend insurers to investigate the different initiatives and to join one or more initiatives, allowing them to work on measuring and mitigating the biodiversity impact. The Finance for Biodiversity Foundation maintains a list of initiatives and carries out quarterly updates to see what activities each initiative is

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30 https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en.
31https://www.rijksoverheid.nl/documenten/kamerstukken/2020/10/16/kamerbrief-programma-versterken-biodiversiteit.
32 https://www.dnb.nl/actueel/algemeen-nieuws/persberichten-2020/dnb-en-pbl-biodiversiteitsverlies-leidt-tot-financiele-risico-s/.
33 https://www.dnb.nl/en/actueel/dnb/oude-persberichten/press-releases-2020/financial-institutions-share-their-approach-to-biodiversity/.
34 https://www.afm.nl/nl-nl/nieuws/2020/juni/visie-duurzaamheid.
35 https://www.afm.nl/en/nieuws/2019/dec/waardecreatie-wint-aan-belang.
36 https://www.financeforbiodiversity.org/.
37 https://tnfd.global/.

undertaking.[38]

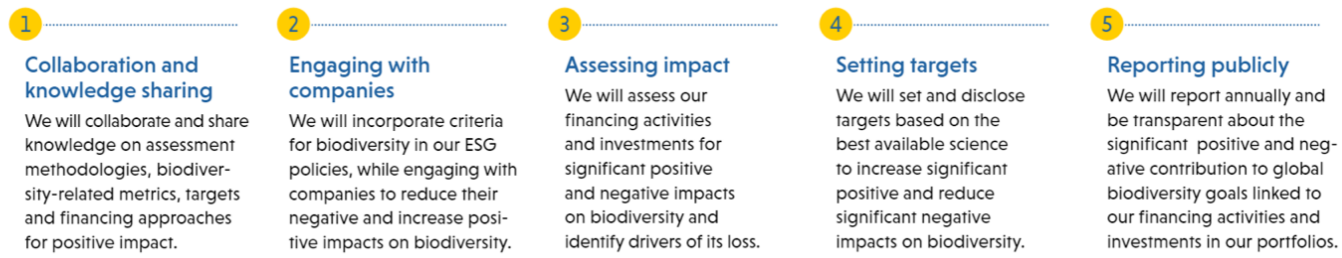

Figure 4: Actions from the Finance for Biodiversity Pledge

38 https://www.financeforbiodiversity.org/publications/overview-of-initiatives-for-financial-institutions/.

4. Due diligence

When performing due diligence on the investment portfolio, the OECD Guidelines for Multinational Enterprises[39] (hereafter: "OECD Guidelines") prescribe the specific steps of the due diligence process. Due diligence is the process by which the actual and potential negative impacts associated with businesses' investments is:

i. identified;
ii. prevented or mitigated; and
iii. accounted for (transparency).

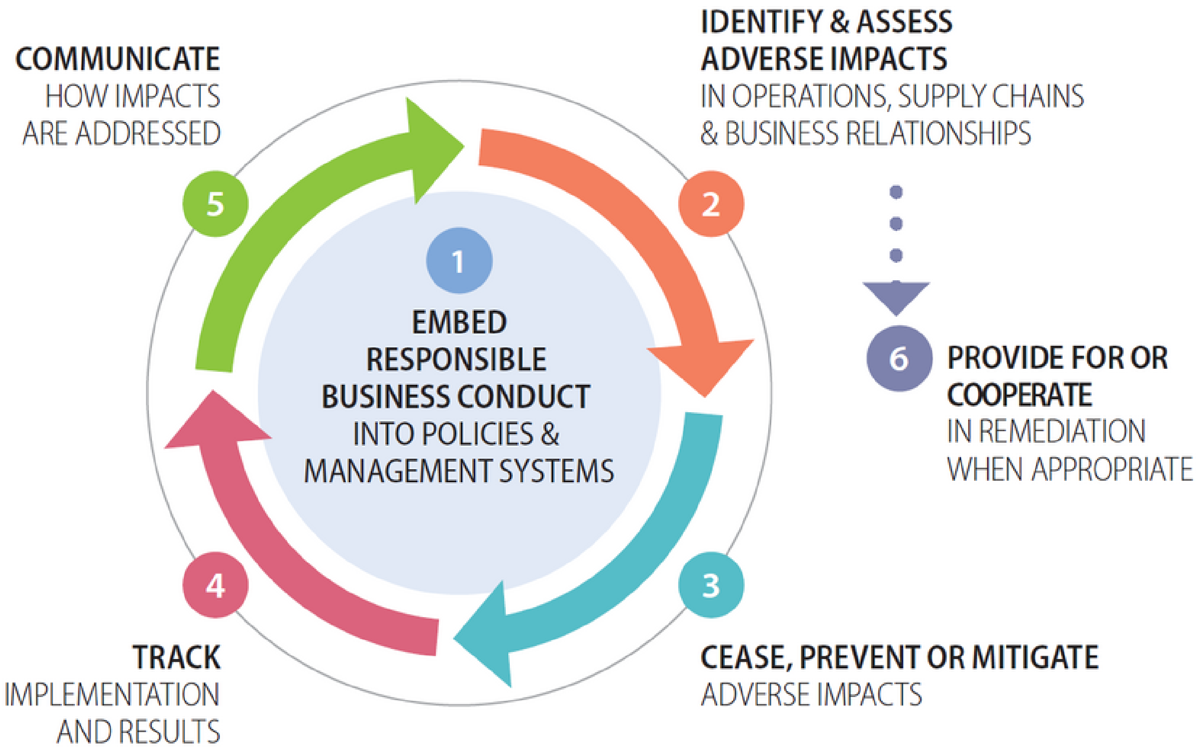

Figure 5: ESG due diligence steps

4.1 Anchoring measures in policies

If biodiversity loss and conservation play a relevant role or are a starting point in the insurer's investment portfolio, proper benchmarks should be included in its investment policy to manage ESG risks associated with biodiversity and to identify opportunities. In this policy, insurers can indicate how they examine biodiversity risks and impacts and how they respond to this in terms of their investments and activities.

An important starting point of the OECD guidelines is that insurers state in their policy the intention to carry out due diligence on their entire portfolio. This can be performed by insurers themselves, but insurers can also check whether external service providers are taking these steps. In addition, it is important to put biodiversity risks – if these result from the risk analysis or are taken as a starting point – on the agenda of the most senior

39 https://www.oesorichtlijnen.nl/oeso-richtlijnen/a/algemene-informatie-oeso-richtlijnen/documenten/brochure/201/12/8/volledige-tekst-oeso-richtlijnen.

managerial body to ensure involvement at the highest level. This way, insurers can embed biodiversity in governance systems.

4.2 Adopting own criteria

It is advisable that the investment criteria that insurers use to assess biodiversity-related risks and impacts are aligned with their policies and priorities. Several suggestions are made below in the table.[40]

The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) refers to 'direct drivers'[41] that have a demonstrable negative impact on biodiversity and ecosystem processes. These drivers can be either natural or man-made.

Direct drivers	Examples
1. Land use change	For instance deforestation due to soft commodity production (palm oil, soya, meat) or mining and extraction of raw materials; land conversion due to infrastructure construction and urbanisation; or degradation of biodiversity through habitat loss.
2. Direct exploitation	As a result of extraction of raw materials and mining, such as oil and rare metals, as well as agriculture and fisheries. An ecosystem and its biodiversity are directly affected by tillage/ploughing and the use of chemicals/pesticides, or in the case of hunting, fishing, species extraction and destruction of seabed life.
3. Climate change	Changing rainfall and temperature patterns , for example, affecting species (e.g. Arctic species due to melting of polar caps) and as a result of acidification (marine life, including coral).
4. Pollution	On land, in the sea, in aquifers and in freshwater bodies, chemicals, pesticides and waste (e.g. plastics) can kill and damage species or destroy their habitat. Endocrine disruptors that cause mutations in reproductive organs of species also fall into this category.
5. Invasive alien species	The introduction of non-native species as a result of, for example, international transport, agriculture or fish farms, may displace native species and disrupt the functioning of entire ecosystems.
6. Other	Other forms of species loss, for example through hunting, poaching or trade in exotic plants and animals.

40 The NGO section would like to emphasise that they see these as minimum criteria to be applied to this theme (e.g. the normative lower limit).
41 https://ipbes.net/models-drivers-biodiversity-ecosystem-change

4.3 Performing risk analysis

Screening is a useful tool to assess which businesses in the investment portfolio pose a risk to biodiversity. The results of the screening provide information that allows insurers to obtain insight regarding:

- which businesses in the investment portfolio create risks due to their biodiversity impact;
- which businesses are not, or not sufficiently, able to mitigate these risks.

This ultimately provides the insurer with insights about which businesses impact biodiversity, which businesses are capable of mitigating the risks caused by this, and so for which businesses cause risks to their portfolios. Given the specialised and time-consuming nature of this exercise, such a screening may be outsourced to an external party. This can be achieved, for example, by using existing tools such as ENCORE, BFFI and others; see the text box on impact measurement in Chapter 2. The Finance for Biodiversity Foundation has created an overview of the different tools and methods that can be used for screening and measuring biodiversity impacts.[42]

Small insurers' participation in the above biodiversity initiatives (see section 3.3) can contribute to the discussions they have with their asset manager. They may address the implementation of the insurer's responsible investment policy specifically in relation to biodiversity and the asset manager's approach to screening, exclusion and inclusion.

4.4 Identifying and prioritising risks

Based on the results of the screening, a prioritisation will have to be made. In the guidance document 'Setting priorities in ESG due diligence'[43] (in Dutch), you can read which steps can be taken to set these priorities according to the OECD guidelines. The OECD Due Diligence Guidance explains that priority should be given to the identified risks based on the degree of severity of the consequences and the probability of the risk occurring. The severity and consequences are assessed on the basis of scale, scope and irreversibility.

In the BFFI-ENCORE study[44], biodiversity risks are linked to financial information such as profits and returns to identify priorities for engagement or divestment.

4.5 Mitigating identified risks

Depending on the results of the screening and the interpretation of the results, the insurer may:

1. actively adjust its voting behaviour as a shareholder;
2. engage with the businesses concerned;
3. proceed to exclusion;
4. initiate ESG integration;
5. initiate impact investing.

By **voting (1)** at shareholders' meetings, the insurer can influence the policies of businesses that impact biodiversity and that cause biodiversity-related risks. Each insurer should define

42 This overview is regularly updated and can be downloaded from: https://www.financeforbiodiversity.org/publications/guide-on-biodiversity-measurement-approaches/.
43 https://www.imvoconvenanten.nl/nl/verzekeringssector/convenant/-/media/AE2736DDDA3A4D2BB6C6CC2FEDCD50D2.ashx.
44 Download from: https://www.government.nl/documents/reports/2021/08/05/biodiversity-impact-and-ecosystem-service-dependencies.

its own voting priorities and behaviour. This can range from voting against management decisions that affect the value of the investment to filing or supporting resolutions to reduce the business's biodiversity risks. The insurer may also support biodiversity-related collective shareholder resolutions in case they are submitted. Finally, the insurer can check to what extent its proxy voting policy matches its own investment policy and create an alert in case biodiversity resolutions are on the agenda of shareholder meetings.

Engagement (2) on biodiversity conservation or restoration means that the insurer enters into a dialogue with businesses in which it invests that do not comply with the insurer's established policy or which creates risks. The aim is to achieve long-term improvements in the governance, policies and performance of the business. There are various forms of effective engagement:

- checking biodiversity policy before investing in businesses;
- responding to incidents after the investment;
- independently developing engagement activities aimed at certain goals, for example halting deforestation;
- joining an existing engagement provider;
- joining a collaborative engagement or network, such as engagement initiatives relating to deforestation, for example: Cerrado Manifesto initiative; the PRI; FAIRR; CERES, Actiam & Satelligence;
- targeting standard-setting/certifying bodies (RTRS/RSPO/FSC/Rainforest Alliance regarding deforestation, for example).

It is desirable in engagement to work with as many like-minded (institutional) investors as possible in dialogue with the same business. The larger the assets under management represented, the larger the influence that can be exercised over the business in question. More information can be found in the Responsible Business Conduct for Institutional Investors guidelines.[45]

Several suggestions for engagement topics are listed below. Businesses can be asked:

- to formulate, implement and publish clear objectives regarding biodiversity. The document Finance for Biodiversity: Guide on biodiversity measurement approaches[46] explains six different measurement methods that can be used to measure impact;
- whether they are making sufficient efforts to keep in step with changing consumer preferences, technological developments or government regulations (transition risks);
- to map and prevent or reduce deforestation as a result, for instance, of setting up soy or palm oil plantations.

If the engagement does not produce any results, or produces insufficient results, within a reasonable period, for example three years, or if a business is found to be involved in practices that are mentioned in the insurer's exclusion policy, the business can be **excluded (3)** from investment.

More data is becoming available to investors that show the impact of businesses on biodiversity (positive or negative impact). As examples of **ESG integration (4),** these data can be used in investment models, or investors can reduce (underweigh) their stake in businesses with negative biodiversity impacts and instead overweigh businesses with a positive impact.

45 https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf.
46 https://www.financeforbiodiversity.org/wp-content/uploads/Finance-for-Biodiversity_Guide-on-biodiversity-measurement-approaches.pdf

Impact investing (5) focuses on investments in companies or activities that contribute to improving existing biodiversity or that restore biodiversity . This goes beyond biodiversity conservation, but may also relate to reducing negative biodiversity impact by investing explicitly in the energy transition or alternative agricultural technologies, which may have major effects on climate and biodiversity.[47]

If an insurer decides to engage with a business, international standards and targets can serve as a guideline. For example, businesses may be required to publish transparent, objective and measurable impacts of investments on biodiversity. These targets can then be used to determine whether the business meets the insurer's requirements.

4.6 Measures to prevent and/or mitigate actual and potential adverse effects

Due diligence is aimed at identifying and preventing risks. Nevertheless, it may happen that a business in which the insurer invests has a negative impact on biodiversity. Insurers usually have a minority stake in a business. From this position, insurers are unlikely to actively contribute to (in the terminology of the OECD Guidelines) the adverse effects on biodiversity. However, in most cases a link can be established between the investments of an insurer and the adverse impact caused by a business (the OECD Guidelines refer here to ‘directly linked’). In the latter case, the insurer is expected to use leverage to persuade the company to take appropriate action.

4.7 Monitoring risks and results of the mitigation strategy

The due diligence policy should be monitored periodically. If biodiversity risks result from the risk analysis or if biodiversity is taken as a starting point, it is recommended that extra attention is paid to:

- the way in which the established criteria for halting biodiversity loss were effectively applied in screening investments for thematic risks and the choices they led to;
- the progress on and results of the chosen engagement and/or mitigation strategy with regard to halting biodiversity loss.

47 Page 6: https://www.government.nl/documents/reports/2019/09/25/report-positive-impacts-in-the-biodiversity-footprint-financial-institutions.

5. Accountability and reporting

The OECD Guidelines require the insurer to publicly report on its due diligence policy and its results. This should be carried out periodically, preferably at least annually. This is described in the OECD Guidelines as:

- Knowing: tracking how the implementation of the investment policy has been handled;
- Showing: communicating publicly about this. The Institutional Investor's Guidelines[48] lists points of attention for the detailing of this step.

The insurer identifies the best indicators to report to best effect on the efforts made to account for biodiversity loss in its investment policy.

An insurer can also report on its engagement with or exclusion of businesses. This can send an important signal to other investors, the business in question and its own customers. The Agreement involves a guidance document 'Transparency on engagement'[49] (in Dutch) with focus points in the engagement process for which the insurer is expected to account externally.

The Taskforce on Nature-related Financial Disclosures (TNFD)[50] – following the example of the Taskforce on Climate-related Financial Disclosures (TCFD) – has started to design a reporting framework that will be ready for use by financial institutions in 2023.

The European Commission is working on a 'green taxonomy', which will include a classification of all sustainable economic activities; see also Appendix 2. The overarching goal is to achieve a shift of investment towards sustainable economic activities. Financial market parties that offer sustainable or green financial products must apply this taxonomy and report on their methods and processes.[51] In the course of 2022, the taxonomy will be expanded to include biodiversity and ecosystem services.

48 https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf.
49 https://www.imvoconvenanten.nl/nl/verzekeringssector/convenant/-/media/36BE62009A7F4355B339FDF3A1B8DFC4.ashx
50 https://tnfd.global/
51https://ec.europa.eu/commission/presscorner/detail/en/ip_19_6793, https://ec.europa.eu/commission/presscorner/detail/en/QANDA_19_6804.

Appendix 1

Overview of international standards for screening

Biodiversity:

- UN Convention on Biological Diversity, 31 I.L.M. 818 (1992) and the Cartagena Protocol on Biosafety to this Convention (2003)
- Agenda 21, Chapter 15, "Conservation of Biological Diversity", U.N. Doc. A/CONF.151/26
- Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), 12 ILM 1085 (1973)
- Convention on Wetlands (RAMSAR), 11 ILM 963 (1971).
- International Tropical Timber Agreement, Misc 11 (1984), Cmnd 9240
- IUCN Protected Areas, which classifies 4 categories of protected areas: CATEGORY I -Strict Nature
- Reserve/Wilderness Area, CATEGORY II -National Park; CATEGORY III -Natural Monument, Category IV Habitat/Species Management Area.
- The UNESCO World Heritage Convention, which identifies natural and cultural sites of outstanding universal values.
- The UNESCO Man and Biosphere Programme, under which a network of Biosphere Reserves.
- The Ramsar Convention, which provides recognition and protection to internationally important wetlands.
- Convention on the conservation of European wildlife and natural habitats (Bern Convention), 1979.
- EU Directive 92/43 on the conservation of natural habitats and wild fauna and flora (amended by Council Directive 97/62/EC)
- EU Directive 85/337 on Environmental Impact Assessment (amended by Council Directive 97/11/EC)
- European Biodiversity Strategy for 2030 COM(2020) 380 final
- Marine Stewardship Council and its Chain of Custody standards
- Aquaculture Stewardship Council certification
- FAO Code of Conduct for Responsible Fisheries
- Forest Footprint Disclosure (FFD)

Pollution management (prevention and control):

- ECD guidelines for Multinational Enterprises (chapter III and IV)
- EU Directive 96/82/EC on the control of major-accident hazards involving dangerous substances (SEVESO II)
- OSPAR Decision 98/3 on the Disposal of Disused Offshore Installations
- UN: Agenda 21, Chapter 30
- Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, 28 I.L.M. Section 657 (1989)
- Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade (1998)
- EU Directive 75/442 on Waste, as amended
- EU Directive 99/31 on the landfill of waste
- EU Directive 2000/76 on the incineration of waste
- EU Directive 91/689 on hazardous waste, as amended
- EU Directive 96/61 concerning integrated pollution prevention and control

Sustainable water management:

- Agenda 21, U.N. Doc. A/CONF.151/26, volumes I-IV Chapter 18, Protection of the Quality and Supply of Freshwater Resources: Application of Integrated Approaches to the Development, Management and Use of Water Resources
- Convention on the Prevention of Marine Pollution by Dumping of Wastes and Other Matter, 11 ILM 1294 (1972)
- Council and OECD Recommendation on Water Management Policies and Instruments
- EU Directive 76/464/EEC concerning water pollution by discharges of certain dangerous substances
- The Water Framework Directive (Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy)
- Decision No 2455/2001/EC of the European Parliament and of the Council
- of 20 November 2001 establishing the list of priority substances in the field of water policy
- EU Directive 91/676 concerning the protection of waters against pollution caused by nitrates from agricultural sources
- International Cyanide Management Code (ICMI) for the manufacture, transport and use of cyanide

Appendix 2

Legislative frameworks

Global frameworks

The Convention on Biological Diversity[52] (CBD) is an international legally binding treaty signed in 1992 to provide a global framework for biodiversity ambition. It is one of the three Rio conventions, alongside the UN Framework Convention on Climate Change[53] (UNFCCC) and the UN Convention to Combat Desertification (UNCCD). [54] It currently has 196 contracting parties: 195 states and one regional organisation (the European Union).
The CBD has three main objectives:
- the conservation of biological diversity;
- the sustainable use of the components of biodiversity; and
- the fair and equitable sharing of benefits arising from the utilisation of genetic resources.

The CBD is currently developing a new strategic framework, the Post-2020 Global Biodiversity Framework[55], which is likely to be endorsed at COP15 to be held in October 2021 in Kunming, China.[56]
The pursuit of biodiversity conservation also fits in with the agenda agreed by the UN up to 2030, through the so-called Sustainable Development Goals[57]. Think here, for example, of:
- Goal 15: Protect, restore and promote the sustainable use of ecosystems, manage forests sustainably, combat desertification and land degradation, and reverse the loss of biodiversity;
- Goal 14: Conserve and make sustainable use of the oceans, seas and maritime resources; and
- Goal 12: Ensure sustainable consumption and production patterns.

European frameworks

European Biodiversity Strategy

European policy in the field of biodiversity is contained in the European Biodiversity Strategy for 2030.[58] This strategy is part of the European Green Deal. The aim is to protect nature and reverse the decline of ecosystems. Elements of the strategy include:
1. Management and restoration of European nature and ecosystems (pillars 1 and 2 of the Strategy), including through the enlargement of protected areas and restoration of degraded ecosystems. This includes, for example, restoring free-flowing rivers, stopping and reversing the decline of birds and insects on farmland and reducing the use and risks of chemical pesticides. In addition, the aim is to manage at least 25% of agricultural land organically and to reduce the use of fertilisers by at least 20%.
2. Transformative change aimed at improving Biodiversity Governance (pillar 3 of the Strategy), including aiming for a strengthened European framework and improved implementation of European environmental legislation; launching an initiative for Corporate Sustainable Governance; ensuring that European funding contributes to, and does not harm, biodiversity; mobilise at least EUR 20 billion per year for nature

52 https://www.cbd.int/convention/text/
53 https://unfccc.int/resource/docs/convkp/conveng.pdf
54 https://www.unccd.int/sites/default/files/relevant-links/2017-01/UNCCD_Convention_ENG_0.pdf
55 https://www.cbd.int/conferences/post2020
56 cbd-financial-sector-guide-f-en.pdf (circl.nl).
57 https://www.rijksoverheid.nl/onderwerpen/ontwikkelingssamenwerking/internationale-afspraken-ontwikkelingssamenwerking/global-goals-werelddoelen-voor-duurzame-ontwikkeling
58 https://ec.europa.eu/environment/strategy/biodiversity-strategy-2030_en

and ensure that a significant part of the 30% of the EU budget for climate action is invested in biodiversity and nature-based solutions; including biodiversity in the European Taxonomy (described in more detail below); encouraging changes in national tax systems to shift the tax burden from labour to pollution, resource use and other environmental externalities.

3. European contribution to global biodiversity (pillar 4 of the Strategy), including contributing to a new global agreement at the 15th Convention on Biological Diversity (to be held in late 2021); implementing and enforcing biodiversity provisions in trade agreements; taking measures to prevent products associated with deforestation from entering the EU market and to promote forest-friendly imports and value chains; reviewing the EU action plan against wildlife trafficking (in 2021).

Taxonomy

The EU has adopted a taxonomy regulation[59] that entered into force on 12 July 2020 and aims to develop the world's first ever 'green list' – a classification system for sustainable economic activities – which will create a common language that investors and businesses can use when investing in projects and economic activities that have a substantial positive impact on climate and the environment. Biodiversity will be included as a criterion for green in the course of 2022. However, the published delegated act on climate change has been heavily criticised by experts, for labelling fossil fuels (gas and nuclear) as green under the taxonomy.[60] The fear is that the taxonomy will be insufficiently 'science-based', causing investments to shift in other directions than intended with adverse effects for the transition. There is also much criticism of the criteria concerning biomass and forestry, which – like climate change – are directly relevant to biodiversity.
As part of the Taxonomy Regulation, the Commission is tasked with coming up with technical screening criteria (via 'delegated acts') to further develop the taxonomy. The activities and criteria to be defined in a first delegated act are based on the recommendations[61] of the Technical Expert Group on Sustainable Finance (TEG) published in March 2020. Since October 2020, the Platform on Sustainable Finance[62] has been advising the Commission on the technical screening criteria for the EU taxonomy, to be adopted in subsequent delegated acts. On Friday 12 February 2021, the European Commission presented its guidance on the implementation of 'do no significant harm'[63] under the Recovery and Resilience Facility (RRF). The RRF, the main instrument at the heart of NextGenerationEU, will provide €672.5 billion in loans and grants to support reforms and investments in Member States. This guidance is intended to assist Member States in ensuring that any investments and reforms they propose for RRF funding do not significantly harm the EU's environmental objectives, within the meaning of the Taxonomy Regulation. The presentation of this guidance follows the adoption by the European Parliament of the Recovery and Resilience Facility.[64]
SFDR

The SFDR, or the Sustainable Finance Disclosure Regulation, is a European regulation that came into force on 10 March 2021 and is therefore directly applicable in the Netherlands. The regulation requires financial market participants and financial advisors to provide information on the extent to which they take into account sustainability risks through due diligence within different products. Negative impacts on biodiversity are one of the possible risks. Financial

59 https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en
60 https://euobserver.com/climate/151437
61 https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en#preparatory
62 https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance/platform-sustainable-finance_en
63 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021XC0218(01)&from=EN
64 Biodiversity financing - Environment - European Commission (europa.eu)
https://ec.europa.eu/commission/presscorner/detail/en/ip_21_423

market participants, including insurers, must classify themselves in terms of sustainability, or indicate why they are unable to take sustainability risks into account ('comply-or-explain' provision). The aim of the regulation is to streamline information flows on sustainability risks so that financial products are more comparable for end investors, allowing them to take more effective account of ESG in investment decisions.

Deforestation law

Finally, the European Union is preparing the deforestation law. This proposal dates back to 2019, when the European Commission published a communication presenting five priorities to protect and restore forests and to promote the consumption of products from deforestation-free supply chains. Subsequently, in its communication on the Green Deal, the European Commission announced that it would take measures to promote imported products and value chains that do not involve deforestation and forest degradation.[65] In response, the European Parliament called on the Commission in a resolution to submit a proposal based on due diligence.[66] A parliamentary report specified this appeal in 2020, calling on the Commission to draft an EU legal framework with mandatory due diligence requirements, reporting, disclosure and third-party involvement for businesses placing forest and ecosystem risk commodities and derived products on the EU market.[67] This includes sanctions for non-compliance. The legislative proposal is currently being prepared by the Commission.

<u>National frameworks</u>

The Dutch government wishes to conserve and sustain biodiversity nationally and internationally. In a recent letter to the House of Representatives, the government informed the House about Dutch efforts to halt the loss of biodiversity and to promote recovery.[68] This letter includes the following:

- The transition to a circular and sustainable food system for the entire supply chain will help to reverse the loss of biodiversity.
- There are promising developments in the financial sector in the area of Biodiversity Accounting, and the government supports the development of methods to measure the impact of financial institutions on biodiversity. It also contributes to the creation of a framework for making the financial risks of biodiversity loss transparent and reportable (Taskforce Nature-related Financial Disclosure) and to the development of investment opportunities that are positive for nature conservation and biodiversity (EU green taxonomy).

In the 'Nature Inclusive Charter' (*'Handvest Natuurinclusief'*)[69], parties involved such as the Association of Netherlands Provinces (IPO), the National Forest Service in the Netherlands (*Staatsbosbeheer*) and the Society for the Preservation of Nature in the Netherlands (*Natuurmonumenten*) urge the new Dutch government to make biodiversity part of the new coalition agreement, with a special focus on a transition fund for agriculture and a nature-inclusive approach to the building and urbanisation challenge. Other parties such as IVN (nature education), Greenpeace, Natuurmonumenten and the Netherlands Society for the Protection of Birds (*Vogelbescherming*) are calling on the new Dutch government to do something 'like the clappers'[70] about the worrying loss of biodiversity in the Netherlands before it is too late.

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65 https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1576150542719&uri=COM%3A2019%3A640%3AFIN
66 https://www.europarl.europa.eu/doceo/document/TA-9-2020-0005_EN.html
67 https://www.europarl.europa.eu/doceo/document/TA-9-2020-0285_EN.html
68https://www.rijksoverheid.nl/documenten/kamerstukken/2020/10/16/kamerbrief-programma-versterken-biodiversiteit
69 https://www.rijksoverheid.nl/documenten/rapporten/2021/04/23/handvest-nederland-natuurinclusief---natuur-inzetten-voor-een-sterke-en-vitale-samenleving
70 https://www.vogelbescherming.nl/actueel/bericht/natuur-geen-onderwerp-bij-formatie

A supplementary letter to the House of Representatives sets out the Dutch government's ambitions for international biodiversity, including in international public and private funding (through safeguards for the environment, including biodiversity) and in trade agreements. It also describes the efforts to conserve the world's most important forest areas and to promote forest restoration. The Dutch government also aims to have sustainable, deforestation-free supply chains, and the development of innovations and private investments in the forest sector is being encouraged. The letter refers to the close relationship between biodiversity, climate change, food security and water management.

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