GUIDELINES
FOR NON-LIFE BUSINESS UNDERWRITING WITH REFERENCE TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS ("ESG POLICY FOR NON-LIFE UNDERWRITING")

19 December 2019

Sustainability

Unipol GRUPPO

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Contents

1. Introduction

The Unipol Group is committed to contributing to sustainable development, as defined by the United Nations 2030 Objectives (SDGs, Sustainable Development Goals), by integrating this commitment into its business model. In the insurance sector and in the finance sector in general, there is increasing interest in understanding the implications of the risks related to environmental, social and governance factors (“ESG factors”) on individuals and on the performance of companies of all sizes.

This document establishes the guidelines for underwriting activities with reference to the risks related to ESG factors, with a view to identifying and managing specific risks that are relevant both in terms of technical risk and reputational risk.

Focusing on ESG risks in the underwriting process guarantees that the values of the Unipol Group will be observed, demonstrating responsibility in the decision-making process and dialogue with stakeholders.

2. Scope of application

These Guidelines are adopted by the Group’s Insurance Companies with registered offices in Italy, operating in the Non-Life business.

On the basis of risk-based assessments, compatible with the specific regulations of the industry, the Parent may identify which other companies may be included in the scope of application of these Guidelines.

The Guidelines for Non-Life business underwriting apply to contracts underwritten with **legal entities**, therefore excluding business relations with individuals from the scope of application.

3. Objectives

The Guidelines regard the underwriting activities of all Non-Life business segments by promoting:

1. the integration of ESG factors into the processes and the strategies of the core insurance business;
2. the adoption of an ESG risk identification and monitoring system in the different economic sectors and with relation to the different segments, products and guarantees, which covers both technical risk and reputational risk;
3. the implementation of a management approach that enables risk exposure to be correctly and rapidly assessed, defining responsibilities and consequent actions;
4. the adoption of ESG principles by the insurance industry to increase the awareness of the potential benefits of integrating ESG into the insurance business model.

4. Definitions and Terminology

ESG (Environmental Social & Governance) factors	Environmental, social and governance issues considered "material" for the Group and for the reference stakeholders, in accordance with that defined in the Materiality Matrix[1].
ESG (Environmental Social & Governance) risks	Risks originating from Environmental, Social and Governance factors, relating to specific sectors and countries that show greater exposure.
Reputational risk	The risk that an internal or external event results in a misalignment between the Group's promises and its actions with respect to the expectations and perceptions of its main stakeholders and which, therefore, has a negative impact on the perception that the same have of the Group and consequently on the expected economic results.
United Nations 2030 Goals	Sustainable Development Goals (SDGs) - defined within the ambit of the "2030 Agenda for Sustainable Development", a plan of action for people, the planet and prosperity, signed in September 2015 by the governments of the 193 UN member states. 17 goals are envisaged, which in turn break down into 169 specific targets.
Principles for Sustainable Insurance (PSI)	Initiative of the insurance world in collaboration with the United Nations Environment Programme – Finance Initiative (UNEP FI) and United Nations Global Compact (UNGC), which has defined 10 principles for the development and increase of innovative risk management solutions and insurance solutions to promote renewable energy, clean water, food safety, sustainable cities and communities that can withstand disasters.
United Nations Global Compact (UNGC)	United Nations initiative launched to encourage companies all over the world to adopt sustainable policies compliant with corporate social responsibility and make the results of their actions public. It envisages compliance with 10 Principles divided into 4 areas: Human Rights, Labour, Environment and Anti-Corruption.

5. Integration of ESG factors into risk assumption and management criteria

The Group has established a transparent and systematic approach to integrating ESG factors into the process of Non-Life underwriting.

1 The materiality matrix, as defined in the Group Sustainability Policy, uses quantitative models to identify the sustainability issues that are relevant to the stakeholders and the Group, therefore representing:

- the "material" issues, namely those that are most relevant to the success of the Group's strategies and of greatest interest to stakeholders, by defining "critical thresholds" for the two dimensions;
- the degree of alignment or misalignment between the stakeholders' perspective and the Group's perspective on each issue.

Identifying, assessing and managing ESG risks is relevant to the underwriting process for two main reasons:

- identifying an ESG risk related to the business areas for which cover is being sought, may contribute to a better definition of the overall risk that is being underwritten, and therefore to a more informed assessment of the opportunity to underwrite it;
- identifying an ESG risk related to the business sector in which the potential insured company or subject operates, or an ESG risk related to the company or subject's management approach to its business activities, may contribute to a more informed assessment of the correctness, solidity and transparency of the potential customer.

The importance of identifying ESG risks in the underwriting process is established in two key documents for the Group's strategy and management, namely the **Sustainability Policy** and the **Risk Management Policy**.

The Sustainability Policy traces the strategies and objectives of managing the environmental, social and governance risks considered relevant to the Group, defining commitments, roles, responsibilities, management approaches ad objectives in this regard, with a view to improving the ESG risk management process.

The Sustainability Policy refers to management policies for specific risks by virtue of their operating profile, and first and foremost to the Risk Management Policy, which establishes the guidelines for risk identification, assessment, monitoring and mitigation, including environmental, social and governance risks, as well as defining the operating limits within which action can be taken, consistent with the Group's general Risk Appetite, also by referring to specific risk management policies.

The Risk Management Policy explicitly states that, within the overall Group risk management system (so-called ERM – Enterprise Risk Management – Framework), environmental, social and governance risks are identified and monitored based on their impact on underwriting risks; the impact that the risks connected to environmental, social and governance may have on the Group's reputation are also identified and monitored.

The Risk Management Policy specifies the main ESG risk areas identified for the Unipol Group, which are: climate change, the increase of social polarisation, socio-demographic change, the technological evolution of society, the infringements of human and workers' rights, environmental damage and the negative impact on the environment and behaviour in violation of the integrity of business conduct.

The identification of the ESG risks relevant to the Group is made through a process with different stages, with a subsequent level of depth:

1. the Emerging and Reputational Risks Observatory identifies and classifies the potential risk areas into four macro-areas (social, technological, environmental and political), highlighting which risk scenarios are directly related to ESG factors;
2. an Interfunctional working group, comprised by the Risk Management, Audit, Compliance and Anti-Money Laundering and Sustainability departments, is tasked with conducting an in-depth analysis of the potential ESG risks throughout the value creation process, mapping the active controls in this regard, periodically assessing the management approach and identifying potential improvement plans;

3. in the case of the Non-Life business underwriting, the ESG risks related to the various operating sectors of customers have been profiled on the basis of an in-house methodology, which has produced a map of the sensitive sectors in relation to different types of environmental and social risk, based on the likelihood and on the impact of the risk in question occurring (for further details, see chapter 6 “Classification of ESG risks”).

6. Classification of ESG risks

The classification of ESG risks is the process that enables the potential exposure to ESG risks to be identified for the various economic sectors in which our customers operate. The methodological approach adopted is based on the analysis and application of a wide variety of sources[2].

Based on these analyses, a **classification of risks in different economic sectors** was adopted, able to provide general indications on the exposure of each economic sector to the different categories of ESG risk. This classification highlights in which economic sector there could be an ESG risk, for which the potential negative repercussions on the Non-Life business need to be examined in depth, based on their likelihood of occurring and on the potential impact on the Company. The ESG risks, and the relative level of gravity in terms of likelihood and impact, may vary on the basis of the business sector in which the potential customer operates, the type of cover requested, the economic sectors served, the geographic area, or the countries (in the case of multinational subjects or those who trade in an international basis) in which it operates, the characteristics of the customer and other factors.

This approach also enables the Group to identify whether the potential ESG risks related to the economic business performed by the potential customer could generate negative impacts on the reputation of the Unipol Group and of its subsidiaries vis-à-vis the interested parties (investors, customers, business partners, regulatory authorities, personnel, ...).

7. Identification, assessment and management of ESG risks

The ESG risk identification, assessment and management process **may involve a number of different parties, as it is based on “escalation”** in terms of decision-making.

The identification and assessment of ESG risks in underwriting processes integrates an approach focused on the business sector the company operates in with an assessment of the way in which the company’s business is managed.

Generally, the Group commits, through the expertise and the services it has developed, **to providing support to its interlocutors in the underwriting process with a view to improving their ability to manage environmental, social and governance issues**, by developing risk assessment activities, advising on prevention approaches, on-line applications, thus reducing the ESG risks and increasing the chances of accessing insurance services.

[2] By way of example, these include authoritative international sources such as the United Nations Global Compact (UN GC), United Nations Environment Programme Finance Initiative (UNEP FI), United Nations Principles for Sustainable Insurance (UN PSI); the methods and the reports of rating agencies specialised in ESG performance; internal sources such as the Emerging and Reputational Risk framework of the Unipol Group, sector analyses, media reports; collaboration with non-governmental organisations on specific issues.

With regard to sectors which, based on the classification of the ESG risks set forth in the previous paragraph, are highlighted as those that have potential high exposure in numerous ESG risk areas, the Group envisages:

- **exclusion** of subjects and/or risks that the Group proposes to insure, in the case in which the sectors have ESG risks that are not compatible with the sustainability approach and the risk management objectives of the Unipol Group;
- an **assessment procedure** which, through suitable processes, tools and bodies set in place by the Group, lead to a decision as to whether to forge business relations with the potential customer, once the ESG risks relating to the way in which activities in **sensitive sectors** are managed.

The exclusions and the assessment procedure are not applied when products that **protect the employees of legal entities, who are the policyholders, in the event of illness and accident**, are underwritten, based on the social role that this cover plays vis-à-vis the people. Therefore, with regard to these products, there are no exclusions envisaged *a priori* related to the operating sector of the policyholder company.

This is without prejudice to underwriting Non-Life Business insurance proposals for which companies have a legally binding obligation to contract.

7.1 Sectors excluded

The following sectors are considered excluded from Non-Life Business underwriting:

- companies who earn a predominant or significant part of their revenues from coal mining activities;
- companies that adopt unconventional extraction practices (such as the removal of mountain peaks, hydraulic fracking, oil sands, deep water drilling);
- companies that develop and produce controversial weapons and/or weapons that are banned by international treaties;
- companies that distribute weapons in areas of conflict or civil war, or to countries that systematically infringe human rights;
- companies that transport controversial weapons and/or weapons that are banned by international treaties to areas of conflict or civil war, or to countries that systematically infringe human rights;
- companies that perform car dismantling;
- business activities directed solely at the performance of gambling (such as VLT rooms and similar).

7.2 The assessment of ESG risk in sensitive sectors

The Unipol Group is committed to being careful, with the support of its processes and tools, not to forge or conduct business relations with subjects that operate in a situation of:

- infringements of human and workers' rights;

- exploitation of natural resources that does not take the relative environmental impact into account;
- systematic use of corruption and illegal practices in the management of the business.

To this end, based on the above-cited classification, and considering the business sectors that are most relevant to the Group's business, a group of sensitive sectors with relation to ESG risks has been identified, **for which processes, tools and bodies that support the assessment of the ESG risk of customer companies** must be adopted.

The sectors in question are:

- **WASTE MANAGEMENT AND REGENERATION ACTIVITIES**
  The waste management sector is a highly sensitive sector, particularly in Italy, due to its exposure to ESG risks. The Unipol Group provides support to companies operating in this sector in compliance with the laws and regulations and with a view to mitigating its impact on the climate and environment.
- **CONSTRUCTION**
  The construction sector, of great importance to the development of the economic system, insofar as it attracts significant direct and indirect investment, displays sensitive aspects in all ESG risk areas (environmental, social and corporate governance), with regard to large-scale, small and very small operators.
- **TRANSPORT AND WAREHOUSING**
  The transport sector, which plays a key role in guaranteeing the mobility of goods and people, has a high exposure to ESG risks with regard in particular to environmental ones, due to the relevant impact of the sector on overall emissions, and to social ones, in terms of working conditions.
- **AGRICULTURE, BREEDING, FORESTRY AND FISHING**
  The agricultural sector is of fundamental importance to society and the Unipol Group is committed to supporting and accompanying it in the challenges it faces, also in social and environmental terms, starting with those relating to climate change.
- **TEXTILE AND LEATHER GOODS**
  The textile and leather goods sector is exposed to environmental risks, to risks relating to animal wellbeing, and to risks relating to the protection of workers' rights and safety.

The Unipol Group sets in place a set of activities and tools to support ESG risk assessment in the underwriting process with relation to these sensitive sectors, **in a gradual way which considers the progressive dissemination of awareness to all levels and the implementation of the tools that support it, and taking a proportional approach with respect to the size of the transactions and entities involved.**

More specifically, the Group and the Companies in the scope adopt and formalise appropriate internal measures in specific documents to improve awareness of the approach to integrate consideration on ESG risks into the processes and strategies of the core Non-Life insurance business. This activity regards the following areas, where applicable and significant:

- integration of ESG risks in the handbooks produced both for Management and for intermediaries, to provide support in understanding and knowledge of the overall risk, and to make people aware of responsible ways that customers can manage their activities;
- with reference to the excluded sectors (see paragraph 7.1), drawing up a list of periodically-updated exclusions, which identifies the companies with which the Group has decided not to underwrite Non-Life Business products with;
- implementation of a process of reporting for the ESG risks assumed in the Non-Life business, to analyse the portfolio relating to the amount of premiums of the guarantees impacted by ESG risks, indicating the economic sector the customer belongs to as well as by individual risk category.

If, during commercial negotiations for large amounts in sensitive sectors, an ESG risk emerges that is considered as significant according to the above classification, the following are involved immediately and in subsequent stages where necessary:

- the **Sustainability Function**, which represents the internal point of reference for the application of these Guidelines and handles the investigation of the case, tasked with providing feedback on the potential risk that emerges at the underwriting stage, in accordance with the wider approach entailing mapping and an assessment of processes, risks and controls of ESG factors adopted within the Group;
- the **Reputation Management Operating Team**, comprised by the Media Relations (Communications) and Emerging and Reputational Risk (Risk Management) functions, a body that coordinates the Unipol Group’s Reputation Management activities, which provides its opinion on the potential reputational impact that the transaction may have, if completed;
- in particularly important cases, due to the potential impact or the size of the potential agreement, the **ESG Task Force**, comprised by the key functions of the company’s core business (Technical Non-Life and Claims Department, Welfare and Life Department, Finance Department, Chief Risk Officer, Chief Innovation Officer, Chief Telematics and Insurance Services Officer, Sustainability), which is tasked with understanding and assessing the concrete implications of ESG factors as regards underwriting and making decisions that are in line with the company vision with respect to the cases presented.

The decision-making process takes numerous factors into account and is subject to changes over time also due to the increase of expertise and of internal ESG risk analysis skills and understanding, as well as developments of the external scenario.

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