



CRO Forum Blueprint on Anti Personnel Mines
and Cluster Munitions
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1. Introduction

In this age of globalisation, interconnectivity and social media, public expectations are high for business to play its part in addressing society's environmental, social and ethical challenges (which for the purposes of this paper will be termed "sustainability challenges"). The (re-)insurance industry, through the provision of insurance, or investments, may be exposed to sustainability challenges inherent in certain business transactions. Consequently, our exposure to such transactions can have a damaging effect on the stakeholder trust and reputation we have built over the years. The CRO Forum's "Recommendations for Managing Environmental, Social and Ethical Challenges in Business Transactions" published in August 2010, makes proposals for the systematic detection, assessment and management of the sustainability challenges in question.

Building on that publication, the CRO Forum now focuses its attention on one specific issue namely, anti-personnel mines (APMs) and cluster munitions. The purpose of this paper is to raise general awareness of the issues related to APMs and cluster munitions and the consequent reputation risks. In addition, the paper sets out possible ways of how (re-)insurance companies, from a risk management perspective, could address business transactions in relation to APMs and cluster munitions. It should be noted that the paper does not present any technical, legal, financial or underwriting views.

2. Anti personnel mines and cluster munitions – the facts

Anti-Personnel Mines (APMs)

Anti-Personnel Mines (APMs) are typically used in conflict areas in an indiscriminate way, resulting in injury or death of not only combatants, but also civilians. The danger of undetonated APMs often remains many years following the end of a conflict. The resulting social and monetary costs, in addition to the personal trauma behind each injury caused by APMs, are significant. In regions and countries without a sophisticated medical infrastructure, rehabilitation becomes very difficult¹. APMs not only cause injury, but also prohibit civilians, during and/or after a conflict, from accessing food, water, or medical care. The removal of an APM costs USD 300–USD 1 000². Even with training, APM disposal experts expect that for every 5 000 APMs cleared, one mine disposal worker will be killed and two injured by accidental explosions³.

Cluster Munitions

The situation is similarly challenging with respect to cluster munitions. Cluster munitions hold ten to several hundred sub-munitions, or bomblets, which are scattered and then explode over an area the size of several football fields. If cluster munitions fail to explode in the air, they can explode on the ground decades later. This kind of “unexploded ordnance” was, and partly still is, a threat in countries like Vietnam, Laos, Lebanon and the former Yugoslavia, where cluster munitions were used in armed conflicts. The situation in Lebanon illustrates the cost associated with clearing unexploded sub-munitions: The projected cost of the mine-clearing programme which ran from August 2006 to June 2009, and also included coordination, information management, quality assurance, mine risk education and victim assistance was put at over USD120 million⁴.

3. Legal framework

The following multi-national frameworks deal with the ban on APMs and cluster munitions:

- Anti-Personnel Mine Ban Convention 1997, or “Ottawa Treaty”⁵
- Convention on Cluster Munitions 2010, or “Oslo Convention”⁶

Countries signing these conventions commit to integrating them into their legislation. However, as major weapons-producing countries such as the USA, Russia, South Korea and China do not subscribe to the international conventions on APMs and Cluster Munitions, there is no binding global regulation.

Anti-Personnel Mine Ban Convention 1997

At the time of writing, the Convention has 175 states parties. With respect to Europe, all EU countries are states parties. In addition, the following countries are examples of European non-EU countries that have signed or ratified the Convention: Albania, Andorra, Belarus, Bosnia & Herzegovina, Croatia, Iceland, Lichtenstein, Monaco, Montenegro, Norway, Republic of Moldavia, San Marino, Serbia, Switzerland, The Former Yugoslav Republic of Macedonia, Turkey, and the Ukraine.⁷

¹ Rehabilitation of Landmine victims – the ultimate challenge, Nicholas and Wendy Walsh, Bulletin of the World Health Organization, 2003

² UN Cyber school bus, 2011: <http://www.un.org/cyberschoolbus/banmines/units/unit1c.asp>

³ Doswald-Beck L, Herby P, Dorais-Slakmon J: Basic facts: the human cost of landmines. Geneva: International Committee of the Red Cross; 1995. ICRC Fact Sheet 1-01-1995.

⁴ Counting the Cost. Landmine Action, 2008: http://www.clusterconvention.org/files/2011/01/Counting_the_cost.pdf

⁵ Officially known as the Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction

⁶ Also known as The Convention on Cluster Munitions (CCM)

⁷ United Nations Treaty Collection:

http://treaties.un.org/Pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XXVI-5&chapter=26&lang=en

By October 2010, only 16 states parties had completed their Ottawa Treaty-clearance obligation on time. A very large proportion of States have had to seek an extension of their clearance deadline. It is clear that compliance with this obligation is a key challenge for this convention.⁸

Convention on Cluster Munitions 2010

At the time of writing, the Convention has 66 states parties: With respect to Europe, all EU countries apart from the following are signatories: Estonia, Finland, Greece, Latvia, Poland, Romania and Slovakia. The following countries are examples of European non-EU countries that have signed or ratified the Convention: Bosnia & Herzegovina, Croatia, Montenegro, Norway, Republic of Moldavia, San Marino, Slovenia, and The Former Yugoslav Republic of Macedonia.⁹

Restrictions related to the provision of financial services to cluster munitions or APM producers¹⁰

There is an ongoing debate whether the Convention on Cluster Munitions is intended to prohibit financing of cluster munitions.¹¹ Within European countries, there is no consensus on restrictions related to the provision of financial services to cluster munitions or APM producers. To date, only three European countries – Belgium, Ireland and Luxembourg – have introduced specific laws: Belgian law prohibits the financing of cluster munitions and anti-personnel mine manufacturers; Ireland specifically prohibits both direct and indirect investment of public money into such companies; and Luxembourg law prohibits “knowingly financing cluster munitions or explosive sub-munitions”.¹² Considering the great number of states parties to the two conventions, it is likely that further countries will adopt legislation on cluster munitions or APM producers, and the (re-)insurance industry may want to monitor such developments.

4. Reputation risks

NGO activity

Non-governmental organisations play a part in shaping public perception and have contributed to a heightened public awareness level on the sustainability issues surrounding APMs and cluster munitions. Their activities range from information campaigns to more focused initiatives. For example, one NGO published a report listing very detailed information about individual financial institutions’ investments, loans or service provision to cluster munitions manufacturers. Such campaigns tend to generate much media coverage, which, at that time, also fuelled the “Oslo process” which led to the Convention on Cluster Munitions. In this sense, NGOs can be relevant markers of future societal trends which precede media, client, regulator or peer pressure.

Media coverage

The below RepRisk® Index (RRI) diagrams depict the intensity of negative media coverage of the topics “cluster munitions” and “landmines” over the past 24 months. One can observe heightened media, at least on the topic of cluster munitions. The peak score of 60 for cluster munitions is relatively high, whereas the low peak of 30 for anti-personnel mines is likely a reflection of a change in warfare over the past years. Many armed conflicts are no longer fought on the ground, but use different strategies of combat. Thus, media coverage reflects this change. The sustainability challenges, however, remain in the conflict areas still exposed to APMs.

⁸ ICRC Anti-personnel mines overview, October 2010: <http://www.icrc.org/eng/war-and-law/weapons/anti-personnel-landmines/overview-anti-personnel-landmines.htm>

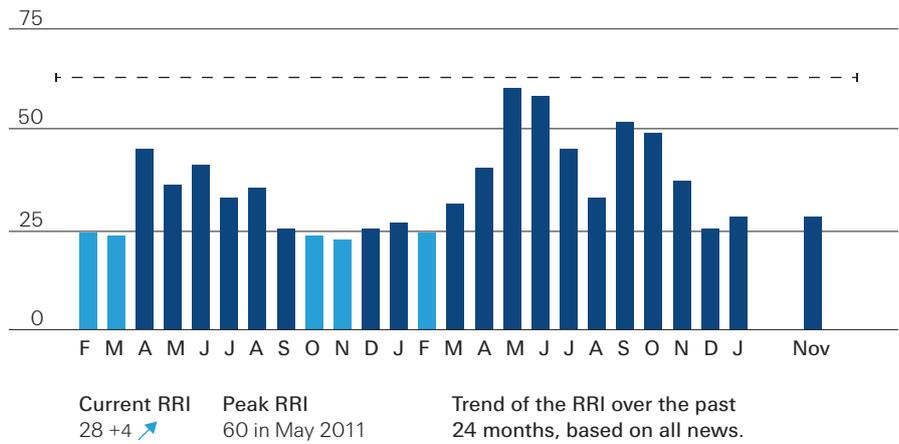
⁹ United Nations Treaty Collection: http://treaties.un.org/Pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XXVI-6&chapter=26&lang=en#EndDec

¹⁰ There is no given definition of what constitutes an APM or cluster munitions manufacturer (e.g. whether certain suppliers are considered to be included in this designation as well). Each (re-)insurance carrier therefore needs to define where to draw the line as to what constitutes APM or cluster munitions manufacturers according to their risk tolerance level (see section 5c).

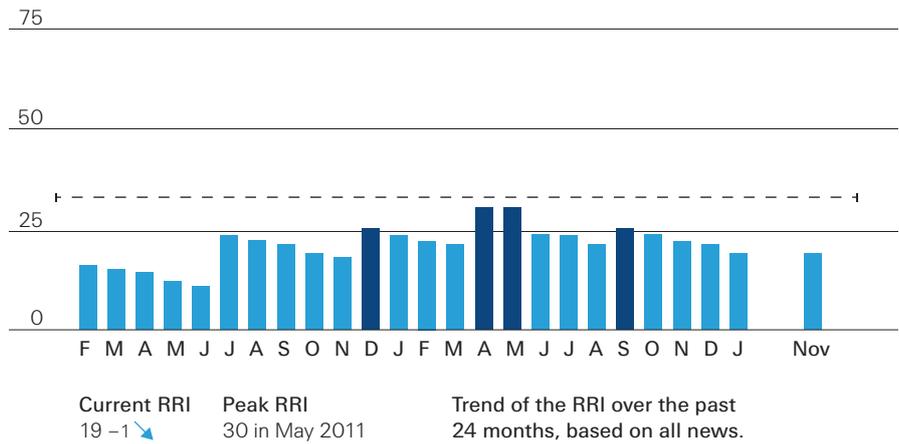
¹¹ Global Cluster Munitions Legislation and Implications for Investors, MSCI ESG Research Analysis by Whitney Rauschenbach, October 2011

¹² Stop Explosive Investments: <http://www.stopexplosiveinvestments.org/legislation>

Cluster munitions



Landmines



Source: RepRisk^{®13}, February, 2012

Calibration of RRI
 0–24 = low risk exposure
 25–49 = medium risk exposure
 50–74 = high risk exposure
 75–100 = very high risk exposure

Media Coverage – some examples:

- In Germany there have been numerous TV and press reports about the involvement of banks with companies producing banned weapons. Insurance companies have been attacked as well for investing government-sponsored retirement funds in cluster munitions manufacturers.
- During the conflict in Libya, the NGO “Human Rights Watch” reported that Libyan government forces deployed anti-personnel and anti-vehicle mines and also used cluster munitions against their own people. The NGO harshly criticised the manufacturers of these weapons and the financial institutions supporting them.
- Financial Institutions have been the target of coordinated NGO campaigns during the past years, pushing the companies to divest their holdings in manufacturing controversial weapons. Companies have received several thousand petitions, hundreds of contract terminations, and have been subject to widespread negative media coverage.

¹³ RepRisk[®] a registered trademark of RepRisk AG, www.reprisk.com

5. Possible actions

There are various ways how (re-)insurance companies, from a risk management perspective, could address business transactions in relation to APMs and/or cluster munitions. It is up to each (re-)insurance carrier to define its sustainability risk tolerance level and consequently, risk mitigation actions may vary, as described below.

It should be noted that actions aimed at reducing business exposure to APM and/or cluster munitions, can take considerable time and require substantial effort, to implement. Solutions need to be developed over time and the appropriate level of sustainability risk management measures found. A dialogue, both internally and externally is advisable, contextualising the challenges and explaining the reasons why reputation risks are deemed high.

Important to bear in mind are the difficulties of defining what constitutes association with APMs and cluster munitions, as well as the understanding that all-embracing solutions may not be possible to obtain for certain types of business, e.g. treaty insurance and/or insurance pools due to the inherent characteristics of these business structures.

Notwithstanding the above, the following are ways on how (re-)insurance companies, from a risk management perspective, could address business transactions in relation to APMs and/or cluster munitions:

- a) **Raise Awareness:** Draw attention to the issues associated with APMs and cluster munitions. An understanding of these issues and the consequent reputation risks is important for gaining acceptance for any potential changes to risk tolerance level and risk appetite. Awareness-raising activities should be conducted throughout the organisation, across all functions and levels. Important, as well, is to initiate discussions with clients, brokers and investors / asset managers to increase the understanding of any potential change in risk appetite.
- b) **Define sustainability/reputation risk tolerance level:** Define sustainability/reputation risk tolerance level based on legal environment, underwriting and investment strategies as well as internal corporate responsibility or sustainability policies. To ensure consistency, the risk appetite to invest in companies associated with APMs or cluster munitions should be congruent with the risk appetite to provide insurance coverage for companies associated with APMs or cluster munitions. When defining a sustainability/reputation risk level, it should be borne in mind that quantitative effects of reputation damage are difficult to estimate.
- c) **Define what constitutes association with APMs and Cluster Munitions:** In addition to the definition of the sustainability/reputation risk tolerance level, it is also up to each (re-)insurance carrier to define what constitutes association with APMs and cluster munitions according to the specified sustainability/risk tolerance level. For example, should companies delivering parts to APMs or cluster munitions also be defined as associated with APM and/or cluster munitions manufacturers?
- d) **Review Portfolio:** Based on defined sustainability/reputation risk tolerance level and the set definition of what constitutes association with APMs and cluster munitions, review investment as well as insurance portfolios; this is necessary in order to determine the existing exposure to APMs and cluster munitions. Securities and sales/premium figures should also be determined and the affected lines of business identified via the relevant internal channels.
- e) **Develop Policy:** Develop risk management policy to address business transactions associated with APMs and cluster munitions. A group-wide way of handling transactions associated with APMs or cluster munitions is most effective if addressing all lines and branches of business, according to the set tolerance level.

Possible actions (illustrative, not exhaustive):

- Completely refrain from doing business with companies associated with APMs and cluster munitions (provision of insurance and investments). From an insurance perspective, this could mean not providing insurance cover for lines of business which may be entirely unrelated to the actual weapons production (e.g. motor fleet or employee savings). To refrain from doing business with such companies could be further extended to those that own a certain volume of shares of APM or cluster munitions manufacturers (the lower the risk appetite, the lower the threshold of share ownership). Such action can also be extended to include companies manufacturing technologies which may be used either for military or civilian purposes.
 - If the APM/cluster munitions producer is a company which also manufactures a range of non-controversial products, refrain from providing insurance cover for only those business units directly involved in the controversial activity.
 - Continue servicing respective companies as before, and engage in dialogue with the clients on the issue as required.
- f) **Internal processes:** To the set risk management policy, define the corresponding governance processes. Roles and responsibilities need to be clearly defined. Also escalation procedures are to be clarified. Business experts, e.g. from Product/Underwriting Centres, Corporate Responsibility, Communications, Risk Management to be involved in the development of the governance processes.
- g) **Monitor implementation:** It is advised to monitor implementation, in order to ensure that the actions chosen fulfil their purpose. Monitoring of external developments is also advised – of new conventions for example. This will ensure that appropriate risk management actions can be taken. Some NGOs are well placed to identify certain emerging risks in the area of sustainability challenges; NGO campaigns monitoring services can also be useful in this respect.

6. Relevant international conventions

- Convention on Cluster Munitions: <http://www.clusterconvention.org/>
- Mine Ban Treaty: http://www.un.org/Depts/mine/UNDocs/ban_trty.htm
- Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction <http://www.opcw.org/chemical-weapons-convention>
- Biological and Toxin Weapons Convention <http://www.opbw.org>

7. References

- SIPRI – Stockholm International Peace Research Institute, Yearbook 2010, www.SIPRI.org
- CMC – Cluster Munitions Coalition, www.stopclustermunitions.org
- ICBL – Campaign to Ban Landmines, www.icbl.org
- Landmine and Cluster Munitions Monitor 2010, www.the-monitor.org

Disclaimer

The CRO Forum Sustainability Working Group

The CRO Forum Sustainability Working Group was launched in 2008 to raise awareness of sustainability challenges relevant to society and the (re-)insurance industry. The initiative has been chaired by Swiss Re and consists of 6 working group members representing Aviva, AXA, Allianz, Generali, Munich Re and Zurich Insurance Group. The Sustainability Working Group pursues the following goals:

- Raise awareness and promote stakeholder dialogue:
- Develop best practice solutions:
- Share knowledge of sustainability challenges.



CRO FORUM

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