



Sustainability-Linked Insurance Principles (SLIPs)

Guidelines for Voluntary Procedures





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FERMA aisbl
Federation of European Risk Management Associations
Avenue de Tervuren 273 B12
1150 Brussels
Belgium

Tel: +32.2.761.94.32
enquiries@ferma.eu

www.ferma.eu

FOREWORD

Sustainability-Linked Insurance (SLI) represents an innovative approach to integrating sustainability considerations directly into insurance contracts by linking insurance terms and conditions, or other contractual characteristics to the achievement of predefined sustainability performance targets. Through this mechanism, SLI aims to incentivise measurable, transparent, and verifiable sustainability improvements, while preserving the fundamental role of insurance as a risk transfer and risk management tool.

The increasing frequency and severity of environmental and social risks, coupled with evolving regulatory expectations and stakeholder demands, have reinforced the importance of embedding sustainability into core business and risk management practices. Insurance plays a critical role in supporting economic resilience and facilitating long-term value creation. In this context, SLI provides an opportunity to align insurance solutions with broader sustainability objectives by encouraging insureds to strengthen their environmental, social, and governance (ESG) performance in areas that are material to their operations and risk exposure.

Unlike traditional insurance approaches, which are generally neutral with respect to sustainability outcomes, SLI explicitly links underwriting and risk management considerations to sustainability performance. By establishing clear and measurable sustainability performance targets, SLI encourages insureds to implement forward-looking strategies that reduce risk exposure, enhance operational resilience, and support the transition to more sustainable business models. In doing so, SLI not only contributes to improved sustainability outcomes but also supports more robust and forward-looking risk assessment and underwriting practices.

The development of FERMA's Sustainability-Linked Insurance Principles (SLIPs) is intended to support the credibility, transparency, and consistency of sustainability-linked insurance solutions in the marketplace. As the concept of SLI continues to evolve, there is a need to promote a shared understanding of its key features and to provide guidance on best practices for its design and implementation. Establishing clear principles helps ensure that SLI structures are meaningful, measurable, and aligned with recognised sustainability objectives, while helping to mitigate the risk of inconsistent application or potential market fragmentation.

Furthermore, SLI aligns with FERMA's broader strategic commitment to supporting the global sustainability agenda and facilitating the transition to a more resilient and sustainable economy. By integrating sustainability considerations into insurance offerings, we seek to leverage the role of risk carriers and risk managers in contributing to long-term value creation for policyholders, stakeholders, and society at large.

Through the establishment of these principles, and similarly to what has been done by the International Capital Market Association (ICMA) in respect of Sustainability-Linked Bond Principles (*), we aim to foster trust, promote market confidence, and encourage the responsible growth of SLI as a credible and effective tool for driving measurable sustainability progress across sectors and geographies.

FERMA's core conviction is that no single solution can address the sustainability challenge in isolation, but each credible initiative contributing to meaningful progress should be embraced.

SLI clearly meets this vision and is intended to play its part in advancing the collective transition toward a more sustainable and resilient economy.

Philippe COTELLE
FERMA President

(*) ICMA (2024), The Sustainability-Linked Bond Principles (SLBP)



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SBB Insurance AG is a direct insurance company (captive), wholly owned by the Swiss Federal Railways (SBB).

Contributors:

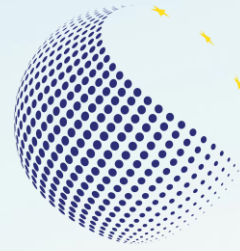
- **Robert EIGENHEER** | Head of Corporate Finance at Swiss Federal Railways (SBB)
- **Alexandre MAZAUD** | Project Lead Sustainability-Linked Insurance at Swiss Federal Railways (SBB)
- **Laurent NIHOUL** | CEO – FERMA
- **Daniele ZUCCHI** | FERMA Board Member and Chair of the FERMA Captive Committee

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Disclaimer

The Sustainability-Linked Insurance Principles and their Appendices are voluntary and non-binding. They are intended to promote transparency, consistency and integrity in the development of sustainability-linked insurance solutions. They do not constitute legal, regulatory, tax or accounting advice.



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SLIPs

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Introduction and Definition

INTRODUCTION

The Sustainability-Linked Insurance Principles (SLIPs) are voluntary guidelines designed to make Sustainability-Linked Insurance (SLI) products credible, consistent and transparent through the setting of clear expectations on KPIs selection, target definition, contractual mechanisms, reporting and verification. They provide market participants with a common framework for the design, implementation and evaluation of SLI solutions. They aim to safeguard market integrity and to reduce the risk of misleading, inconsistent, or unsubstantiated sustainability claims.

The SLIPs are primarily intended to:

- Establish clear expectations with respect to the selection of KPIs, the setting of sustainability performance targets, contractual mechanisms, and related reporting and verification processes.
- Support comparability across SLI contracts, while allowing appropriate flexibility to reflect sector-specific risks, regulatory requirements and business models.
- These Principles were developed by practitioners, such as SBB Insurance AG (1) and its Sustainability-Linked Insurance program, drawing on market experience, recognized sustainability frameworks and established best practices. Their structure reflects the specific characteristics of insurance contracts and underwriting process. The intent is to provide guidance that is both practical for day-to-day underwriting and sufficiently robust to foster credibility, transparency, and confidence in the SLI market.

This guide presents a practical, measurable five step approach for integrating sustainability into underwriting and aligning insurers' and insureds' objectives:

1. **Select Key Performance Indicators**
2. **Set Sustainability Performance Targets**
3. **Adapt Insurance Terms and Conditions**
4. **Reporting and Disclosure**
5. **Verification**

SLIPs are relevant to all parties involved in SLI contracts, including insured organisations, insurers, brokers and advisors, and external reviewers and verifiers. When applied collectively, these components enhance disclosure, promote consistent application, and increase transparency throughout the life cycle of the insurance arrangement, from contract inception through performance assessment. They are aimed at aligning underwriting practices with sustainability objectives, support the insured's transition plans, and reinforce trust among market participants.

(1) SBB Insurance AG is a direct insurance company (captive) and is wholly owned by Swiss Federal Railways SBB: More about the organization: www.sbbinsurance.li

DEFINITION

SLI refers to insurance arrangements in which the contractual terms, pricing mechanisms, and/or other material characteristics of insurance coverage are explicitly contingent upon the insured's achievement of one or more predefined sustainability performance targets (SPTs).

Such targets are quantified and measured through clearly specified key performance indicators (KPIs) and objectively evaluated over a defined insurance period.

SLI does not necessarily require the earmarking of insurance proceeds for specific sustainable activities. It is rather designed to incentivizing measurable improvements in sustainability performance at the level of the insured entity or portfolio, enabling its application across sectors and insurance lines.



1

Select Key Performance Indicators



The first step in aligning an insurance programme with sustainability objectives is the selection of one or more KPIs that are material to the insured's sustainability strategy, business activities, and underlying risk profile, and that can be influenced during the insurance period. The selected KPIs should be relevant to the scope of the insurance coverage and to the risks being underwritten.

KPIs may relate to environmental, social or governance topics, where such topics are relevant and material to the insured's business and insurance coverage. All KPIs must be clearly defined, measurable and based on consistent methodologies and reliable data sources. Each KPI should specify an explicit scope or perimeter, a transparent calculation methodology and, where feasible, a clearly defined baseline against which performance can be assessed

An appropriate KPI should exhibit the following core attributes:

- **Measurable:** clearly defined and quantifiable, with sufficient detail regarding calculation methodology, including denominators for intensity-based metrics).
- **Influenceable:** the insured must be able to positively and materially influence performance against the KPI during the policy period through operational, managerial, or strategic actions.
- **Existing:** ideally, the KPI should already be tracked and reported, allowing for the availability of historical data. Where KPIs have not been previously disclosed, insured companies should, to the extent feasible, provide at least three years of externally verified historical values.

In addition, selected KPIs should:

- Be relevant to underwriting considerations, risk mitigation measures, or loss prevention strategies.
- Allow benchmarking where feasible, whether against peers, industry standards or internal business units.
- Be monitored and reviewed regularly throughout the policy period, allowing thresholds, methodologies, or scopes to evolve in line with market developments and best practice.

Embedding the KPIs into the underwriting process strengthens risk analysis by integrating exposures into underwriting decisions and enables the use of tangible incentives. KPIs may be reflected in risk scoring methodologies, pricing mechanisms (such as discounts, surcharges, or deductibles), coverage terms or limits, or any other contractual features that reward achievement or outperformance or address persistent underperformance.

The following non-exhaustive examples are provided to illustrate potential KPI categories and metrics across environmental, social, and governance dimensions. The final selection of KPIs should always be tailored to the insured's sector, operational footprint, and the specific risks covered by the insurance contract.

Environmental KPIs:

- Greenhouse gas emissions (absolute or intensity based; with specified Scopes 1–3)
- Energy consumption or energy intensity (e.g. kWh per unit of output)
- Share of energy from renewable sources (%)
- Water consumption or water use intensity
- Waste reduction, recycling rate, circularity metrics
- Implementation of climate risk mitigation measures (e.g. flood or wildfire resilience investments)
- Frequency of pollution incidents or effectiveness of pollution prevention controls
- Land use impacts, deforestation risk, and biodiversity-related indicators
- Share of suppliers meeting defined sustainability criteria, including supply chain emissions

Social KPIs:

- Occupational health & safety metrics (e.g. lost time injury frequency rate)
- Workforce diversity and inclusion indicators (e.g. % women in senior positions)



1

Select Key Performance Indicators

- Supply chain social performance or human rights compliance measures
- Employee training and upskilling hours related to sustainability, safety, or risk prevention

Governance KPIs:

- ESG governance maturity indicators (e.g. existence and mandate of an ESG committee)
- Compliance with recognised sustainability frameworks or codes of conduct
- Board level oversight of sustainability matters (e.g. frequency and scope of board reporting)
- Cybersecurity or data protection maturity indicators, where material to the insured risk

Overarching KPIs:

- ESG rating by a recognized third-party assessor

Applicability Across Insurance Lines

SLI structures are not limited to any specific line of insurance. They are applicable across all types of insurance coverage, including property, casualty, liability, financial lines, and specialty risks. The key consideration is the identification of KPIs that are materially linked to the underlying risk profile of the insurance cover and to the insured's ability to influence outcomes during the policy period.

The table below illustrates how KPI categories and metrics may vary depending on the type of insurance product:

Insurance line of business	Typical KPI category	Examples of potential KPIs
Property	Environmental	<ul style="list-style-type: none"> ▪ Reduction in greenhouse gas emissions intensity of insured assets ▪ Percentage of insured locations meeting defined climate resilience standards
Marine	Environmental / Governance	<ul style="list-style-type: none"> ▪ Fuel efficiency or emissions intensity of insured vessels ▪ Percentage of fleet compliant with recognised environmental or safety standards
Directors and Officers	Governance / Social	<ul style="list-style-type: none"> ▪ Existence and effectiveness of board-level ESG oversight ▪ Implementation of recognised compliance, ethics, or human rights policies
Liability	Environmental	<ul style="list-style-type: none"> ▪ Frequency of pollution incidents or effectiveness of pollution prevention controls

These examples are illustrative only and are intended to demonstrate the flexibility of SLI structures across insurance lines, and to help identify appropriate metrics. In all cases, KPI selection should be reflecting the insured's business sector, operational footprint and the specifics of the risk being underwritten.



1

Select Key Performance Indicators



Practical Example

Swiss Federal Railways (SBB), as Switzerland's largest mobility provider, one of the largest real estate companies, and the country's fourth largest energy producer, entirely from renewable sources, has its main insurance needs in property and liability coverage.

With more than 15 years of experience in energy efficiency and climate action, SBB has implemented continuous and ongoing measures that have reduced its Scope 1 and 2 greenhouse gas emissions by over 49% (1) since 2018. SBB's Scope 1 emissions originate from three main categories of sources: fuel consumption in fixed facilities; fuel consumption for rail (2) and road vehicles and refrigerant losses. SBB's Scope 2 emissions originate from two main categories of sources: purchased electricity (3) ; and purchased district heating.

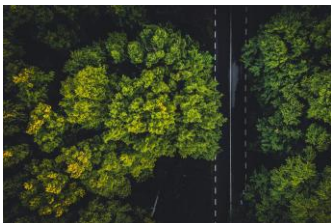
As part of SBB's strategy to maintain its competitive environmental advantage and given that this metric has been long tracked internally, the reduction in greenhouse gas emission intensity of insured assets was therefore a strong and appropriate KPI for inclusion in an insurance contract featuring an SLI component.

- (1) According to the 2025 SBB Sustainability Report
- (2) Mostly used by cargo transportation, shunting locomotives, construction vehicles and maintenance/safety locomotives where there are no overhead lines or they cannot be used. 99.8% of the Swiss rail network is electrified.
- (3) Since January 1, 2025, SBB trains have been running on traction current that comes from 100 percent renewable sources.



2

Setting Sustainability Performance Targets



Once the relevant KPIs have been defined, the next step is to establish one or more SPTs. SPTs represent the measurable improvements that the insured commits to achieve during the insurance period.

SPTs should be specific, measurable and timebound. They should reflect a level of ambition that goes beyond the “business as usual” trajectory, be aligned, where applicable, with the insured’s longer-term sustainability strategy or transition plans, and be calibrated using transparent and robust methodologies. SPTs should be defined and agreed upon prior to or at contract inception. Where long-term targets exist, appropriate interim SPTs should be established to align with the insurance period.

SPTs must be set in good faith and represent a material and credible improvement in the selected KPIs. Target calibration may follow either a top down or bottom-up approach:

- **Top-down:** translate a long-term sustainability target into short-term ambition by allocating the remaining required improvement evenly, or proportionally, across the years leading up to the long-term target date.
- **Bottom-up:** deriving SPTs by aggregating the expected quantitative impact of specific sustainability projects, investments, or operational measures planned during the insurance period.

Both approaches are acceptable. The key objective is to ensure SPTs are ambitious yet realistic, and achievable within the insurance period. Where relevant and/or applicable, SPTs should be compared to external benchmarks or reference frameworks, remain consistent with the insured’s overall sustainability strategy (or public development policies), and be

determined on a clearly defined and documented timeline.

The target setting process should combine benchmarking approaches:

- **Insured’s historical performance:** use the insured’s own performance over time, with a minimum track record of three years recommended where feasible, supplemented by any forward-looking guidance or projections related to the KPIs.
- **Peer and Sector comparison:** position SPTs relative to peer performance (e.g. industry averages or best-in-class benchmarks) or recognized industry/sector standards.
- **Science- and policy-based alignment:** reference to science-based scenarios, absolute thresholds or limits (e.g. carbon budgets), official policy targets and frameworks (including a.o. the Paris Agreement, the Sustainable Development Goals, or the Kunming Montreal Global Biodiversity Framework), or recognised best available technologies.

Disclosures relating to SPTs should be clear, comprehensive, and transparent, and should include at a minimum:

- timelines for target achievement, including observation dates and assessment periods;
- the baseline or reference point used for target calibration, including the relevant date or period), the rationale for its selection, and any circumstances that would trigger recalculation or proforma adjustments;
- where feasible, a description of the principal means through which the SPTs are expected to be achieved, including key operational levers, planned investments, governance arrangements, and the anticipated quantitative contribution of material measures;
- external factors beyond the insured’s control that could materially affect the achievement of the SPTs.

Practical Example

SBB has committed to reduce its Scope 1 and 2 emissions by 60% by 2030, compared to 2018 levels, and to reach net zero by 2040. These targets are supported by strong internal expertise and have been validated by the Science Based Targets initiative (SBTi).

While top-down target settings are relatively straightforward to define, the pathway to achieving actual emission reductions is rarely linear. At SBB, many of the measures implemented yield one-off, front-loaded reductions: the most impactful and cost-efficient initiatives are typically executed first, while more complex or capital-intensive measures are deferred to later phases. SBB’s emissions may also fluctuate from one year to another because some sources are significantly influenced by weather or business conditions. As a result, the pace of emissions reductions can vary considerably over time.

Following a successful pilot and in agreement with the participating insurers, SBB has therefore adopted a bottom-up approach to set ambitious reduction targets for its SLI program. The targets reflect the actual pipeline of remaining measures while maintaining SBB’s ambition to outperform current budget projections and deliver deeper emissions reductions.



3

Adapt Insurance Terms and Conditions



SLI contracts should clearly specify how insurance terms and conditions vary as a function of performance against the selected SPTs. The defined KPIs and targets should be translated into a transparent and contractually enforceable payoff structure that links financial and/or structural features of the insurance contract to the degree of target achievement.

A range of contractual mechanisms may be used, including but not limited to:

- **Premium adjustments**, in the form of reductions or surcharges;
- **Bonus or malus payments**, defined as a percentage of the annual net premium and calibrated to the level of SPT achievement;
- **Adjustments** to deductibles, limits, sub-limits, or coverage extensions (subject to regulatory and legal constraints);
- **Contributions** to sustainability, risk prevention, or resilience initiatives.

All mechanisms should be financially meaningful yet proportionate to the insurance agreement, transparent and contractually enforceable, and consistent with underwriting discipline and regulatory requirements. Financial and/or structural adjustments should be commensurate with the original contract terms. Where fallback provisions apply (such as circumstances in which SPT performance cannot be calculated or observed), these should be explicitly explained and defined in the contract.

SLI contracts may also include provisions addressing exceptional or unforeseen events (e.g. major regulatory, methodological, or technical changes) that could materially affect

KPI calculation or target achievement.

Where applicable, contracts should specify whether bonus or penalty amounts are retained by the insurer, rebated to the insured, or allocated to a dedicated sustainability or risk prevention fund, or used for sustainability projects.

Illustrative contractual design

- The parties agree on a sustainability-linked component tied to an SPT and linked to the annual net premium.
- Performance against the KPI (e.g. CO2 emissions reduction, ESG rating improvement) is reported in accordance with the specified requirements (e.g. in a sustainability report).

- The bonus or penalty component is calculated as:

annual net premium × bonus/penalty rate × degree of target achievement.

- The degree of achievement is determined by reference to predefined upper and lower performance thresholds (e.g. from +100% to -100%), interpolated and rounded as agreed in advance.

Overall, SLI contractual mechanisms should be simple, transparent and enforceable, aligned with sound underwriting practice, and calibrated so that incentives are sufficiently material and meaningful to influence behaviour while remaining proportionate to the nature and scale of the insurance relationship.

Practical Example

SBB's SLI contract includes a bonus-malus mechanism applied to its insurance premium, triggered by the Group's performance against its Scope 1 and 2 emissions SPT. The bonus-malus adjustment is expressed as a percentage of the annual net premium and can range from 1% to 5%, as decided by the insurance company. Moreover, the bonus/penalty component is limited to ±100%, as defined by a target achievement rate table. The SPT represents the centre of the range (i.e. 0%), and the limits reflect the average historical variation of the KPI.

Exact contractual terms and methodology for assessing target achievement are set out in the appendix, providing a practical template for organizations seeking to implement a similar structure in their insurance programmes.

Regarding the use of bonus and malus proceeds, SBB and its partners have agreed on the following principles:

- Any bonus received by SBB will be allocated to the company's Climate Fund to finance sustainable initiatives, thereby creating a virtuous cycle of reinvestment in climate actions.
- Insurers are encouraged, where feasible, to reinvest any malus amount into sustainable initiatives of their choice, which may include contributions to SBB's Climate Fund.

These principles ensure that financial adjustments under the SLI contract are directly linked to and supportive of tangible climate actions and long-term sustainability objectives. Hence, there is no potential outcome where sustainability does not benefit and limits any accusation of greenwashing.



4

Reporting and Disclosure



Transparent, consistent and verifiable disclosure is fundamental to the credibility and integrity of a SLI programme. Insured parties should disclose relevant information at least annually, or in line with the insurance renewal cycle (subject to confidentiality constraints). Disclosures should be clearly presented, up to date, and easily accessible to relevant stakeholders.

At a minimum, disclosures should cover the following elements:

- **KPI definitions, baselines and methodologies:** the KPI scope or perimeter, precise calculation methodology (including denominators for intensity-based metrics), the selected baseline or reference point with its rationale and relevant date or period, and any predefined rules governing recalculation or pro forma adjustments.
- **Performance against SPT(s):** measured outcomes for the relevant reporting period, observation dates or periods, and the degree of achievement relative to the predefined SPTs.
- **Impact on insurance terms:** a clear explanation of the contractual consequences of SPT performance, including any premium adjustments, bonus or malus payments, or changes to deductibles, limits, or other structural features of the insurance contract, together with the timing of any resulting payments or contractual adjustments.
- **Material changes and exceptional events:** disclosure of any material changes to KPI scope, methodologies, or SPT calibration, including restatements, the application of fallback mechanisms, and the occurrence of exceptional events (such as regulatory, methodological, or technical changes) that materially affect KPI calculation or target achievement.
- **Supporting context:** relevant updates on the insured's sustainability strategy, governance, and key measures or investments intended to support achievement of the SPTs, quantified where feasible, as well as disclosure of external factors beyond the insured's control that may materially influence performance.

Reporting should be supported by clear governance and documented methodologies. Regular monitoring, benchmarking, and periodic review are essential to ensure that KPIs and SPTs remain material, credible and effective over time. Thresholds, assumptions and methodologies should be reviewed and, where appropriate, updated to reflect evolving best practices, regulatory developments, and changes in business operations. Where feasible, insured entities are encouraged to align KPIs and associated targets with recognised international standards and frameworks, in order to enhance comparability, credibility, and market confidence.

Practical Example

SBB holds quarterly update meetings with its insurance partners to review the status of the SLI programme. These sessions cover the current trajectory of the contractual KPI, i.e. the reduction of Scope 1 and 2 emissions, and assess performance against the agreed KPI.

These quarterly communications also provide a platform to discuss potential contract enhancements with respect to sustainability only and set the sustainability target for the following year. As not all insurance partners are able to attend these updates, SBB's annual Sustainability Report serves as the primary authoritative reference for the application of the relevant insurance clauses.



5 Verification

Performance against KPIs and SPTs should be subject to independent verification by a qualified third party in order to ensure the accuracy, reliability, and credibility of an SLI programme.

This verification process should, at a minimum:

- Confirm the accuracy, completeness, and consistency of reported data.
- Assess whether SPTs have been achieved for the relevant observation period.
- Disclose the scope, methodology, assumptions, and any limitations of the verification review.

Verification outcomes should be made publicly available, or otherwise accessible to relevant stakeholders, subject to applicable confidentiality constraints. Verification should be performed at least annually at any date or period that may trigger an adjustment to the financial or structural characteristics of the SLI contract.

Insured organisations should preferably engage qualified external reviewers with relevant expertise (e.g. sustainability auditors) to provide reasonable assurance on performance against SPTs. Where external verification is not obtained, the insured should document robust internal verification processes, including clear methodologies, internal controls, and evidence of the competence and independence of the personnel responsible for measurement and reporting. The absence of external assurance should be clearly disclosed.

Acceptable approaches to external assurance may include, but are not limited to:

- Extending the mandate of an existing external auditor to cover sustainability-related metrics, thereby leveraging established procedures and governance frameworks.
- Engaging a specialized third party to provide a second party opinion or independent verification focused on the SLI's KPIs, SPTs and associated disclosures.

External reviewers are encouraged to disclose their relevant qualifications, credentials, and experience, and to clearly define the scope and nature of their assessment. Verification reports should specify the level of assurance provided, describe any adjustments or

restatements made, and explain how the verified performance affects the contractual consequences of the SLI, such as premium adjustments or bonus/malus payments.

Clear, consistent, and independently verified reporting strengthens stakeholder confidence, enhance market integrity, and reinforces the effectiveness of SLI as a credible mechanism for incentivizing measurable sustainability improvements.

Practical Example

Independent verification was a critical success factor in SBB's SLI programme. During the pilot phase, two complementary forms of verification were implemented:

- 1. External audit of sustainability reporting.** Even prior to the introduction of the relevant European Union regulation, SBB commissioned an independent audit of its sustainability reporting, with particular focus on the KPI used in the insurance contract. The audit confirmed the accuracy and reliability of the reported data, providing additional assurance to insurers. This external verification is now conducted annually ahead of the publication of each Sustainability Report.
- 2. Independent qualitative assessment of risk impacts** SBB also engaged an independent academic expert in insurance to qualitatively assess the impact of the company's sustainability measures on its risk profile. The assessment concluded that approximately half of the groups of measures have a positive impact in reducing the risks, while none were found to have a negative impact.



SLIPs

Sustainability-Linked Insurance Principles

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APPENDICES

1. Glossary
2. Contractual wording



Appendix 1

Glossary

- **Baseline** – Reference point against which KPI performance is measured.
- **Bonus/ Malus Mechanism** – Contractual adjustment to insurance terms based on SPT achievement.
- **External Review** – Independent assessment of KPI relevance, SPT ambition or performance accuracy.
- **Insurance Characteristics** – Financial or contractual terms that may vary based on sustainability performance.
- **Key Performance Indicator (KPI)** – Metric used to measure sustainability performance during the insurance period.
- **Materiality** – Degree to which a sustainability topic is significant to business, risk and underwriting.
- **Sustainability-Linked Insurance (SLI)** – Insurance where terms are linked to sustainability performance rather than use of proceeds.
- **Sustainability-Linked Insurance Principles (SLIP)** – Voluntary guidelines for credible SLI design and disclosure.
- **Sustainability Performance Target (SPT)** – Measurable sustainability objective tied to insurance outcomes.
- **Verification** – Independent confirmation of KPI data and SPT outcomes.
- **Voluntary Process Guidelines** – Non-binding best-practice recommendations.
- **Schweizerische Bundesbahnen (SBB)** – Swiss Federal Railways
- **Federation of European Risk Management Associations (FERMA)** - brings together 24 risk management associations in 23 European countries. FERMA acts on their behalf at European level and promotes the risk management profession.



Appendix 2

Contractual Wording

The following text block is intended as an example of how a sustainability component can be structured in existing insurance contracts.

Disclaimer: Consult your legal department before implementing any of these ideas.

SPECIAL AGREEMENT VALID FROM 1.1.20xx – 31.12.20xx

With a “Sustainability-Linked Insurance” the parties agree on a sustainability component in the insurance contract.

The annual net premium is to be supplemented by a bonus/penalty component that is linked to the achievement of Sustainability Performance Targets (SPT).

The relevant Key Performance Indicator (KPI) for the SPT is measured by the reduction of CO2 emissions (Scope 1 and 2) of [Party A]. The basis for calculating the CO2 values is the sustainability report of [Party A] for the respective completed financial year.

The bonus/penalty component is defined as [1-5] % of the annual net premium.

The payment of the bonus/penalty component is calculated as follows: annual net premium [xxx] times the bonus/penalty component [1-5] % times target achievement rate -100% to +100%.

Any bonus payment by [Party A] will be used to fund sustainability projects. Any penalty payment in favour of the insurer [shall/must] also be used for sustainability projects.

The target achievement rate for the reduction target for the year [20xx] is regulated as follows:

- Reduction target for operational greenhouse gas emissions Scope 1 and 2 of [Party A] in the financial year [20xx]: [x'000] t CO2
- Maximum bonus of +100% applies at a reduction of [x'000] t CO2
- Maximum penalty of -100% applies at a reduction of [x'000] t CO2

If the specified reduction target is achieved exactly, [Party A] owes the already agreed net premium [20xx]. If the reduction target is not met, [Party A] owes the insurer a penalty on the net premium [20xx] accordingly. If the reduction target is exceeded, the insurer pays [Party A] a bonus on the net premium [20xx] accordingly.

The bonus/penalty component is limited to +/-100% based on the target achievement rate. The target achievement rate is based on the table below and is interpolated. Achievement of the target is rounded to the nearest whole percentage point.

Actual Savings (in t CO ₂ e)	Target achievement rate (in %)
[x'000] or less	-100%
[x'000]	-75%
[x'000]	-50%
[x'000]	-25%
[x'000]	0%
[x'000]	+25%
[x'000]	+50%
[x'000]	+75%
[x'000] or more	+100%

Payment of the bonus/penalty component will be made within 60 days after publication of the sustainability report, retroactive for the concluded insurance year.

All other contractual provisions remain unchanged.



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Federation of European Risk Management Associations

Avenue de Tervuren 273 B12
1150 Brussels
Belgium

Tel: +32 2 761 94 32
enquiries@ferma.eu

www.ferma.eu