Global sustainability transition: will it impact the insurability of your mining business?

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Whitepaper

LOCKTON

In an interconnected world, where information is readily available and accessible for all, sustainability has become a global topic that is discussed and implemented at board level due to the potential repercussions on a business.

As a legacy industry, the mining sector is under particular scrutiny for its impact. Given the universal imperative of climate change, businesses are now promoting sustainability throughout their entire value chains, prompting them to re-evaluate their footprint and services, as well as withdraw from industries perceived as high risk. The insurance market is no different. With insurers integrating sustainability into investment and underwriting decisions, mining businesses may risk losing coverage as a result of weak environmental, social, governance (ESG) credentials.

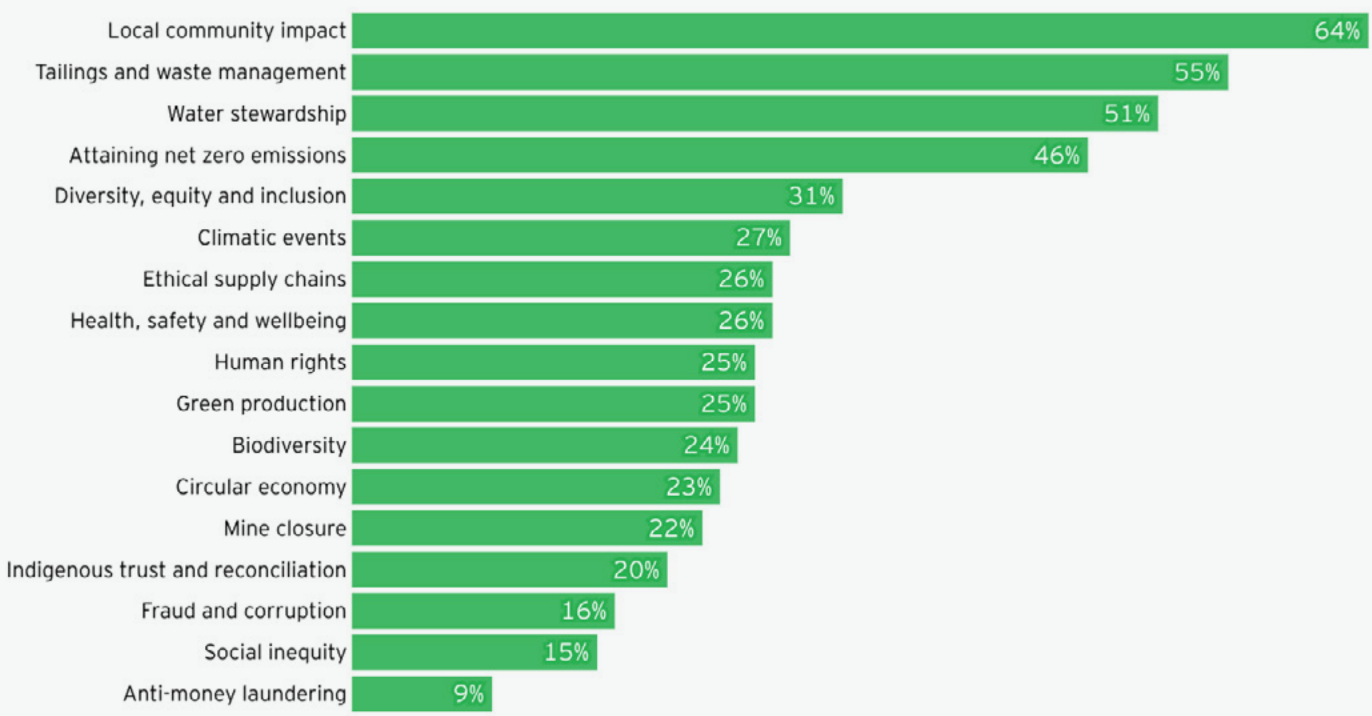
To ensure operational longevity, competitiveness, and value, you must have a holistic perspective of sustainability risks, as well as re-evaluate your risk management approach and insurance arrangements accordingly.

How has this transition impacted your risk landscape?

A survey conducted by EY identified the top risks and opportunities for mining businesses. ESG ranked first, with the following factors being heavily assessed by investors.

ESG has become a common metric for assessing an organisation's sustainability. Failing to meet those targets expose businesses to an array of risks, predominantly loss of capital, reputational damage, directors' and officers' liability (D&O) exposures, and potentially the loss of adequate insurance coverage. While efforts to mitigate the risks are significant, the increasing dependency on digitalisation (i.e. robotics, drones, wearable technologies, biometric solutions etc.) to drive sustainability, may exacerbate the impact/likelihood of existing risks, or even trigger the emergence of new risks.

ESG factors facing the most scrutiny from investors in 2024



Source: EY mining and metals business risks and opportunities survey data 2024.[1]

Have you considered the unintended consequences of digitalisation?

Data privacy and security concerns

As more data is being gathered throughout the mining lifecycle, there are growing concerns around how data is processed, stored, and shared. Without appropriate governance policies and procedures, businesses are at risk of significant data breaches, which could lead to regulatory scrutiny and fines, reputational damage, and/or jeopardised worker safety.

Cybersecurity threats

The increasing dependency on IoT could make businesses more vulnerable to cybersecurity threats, jeopardising operations, equipment, data and employees.[2] The impact can be crippling, reverberating far beyond financial loss and operational interruption. Employee and public safety are major concerns, as certain incidents (e.g. hijacking automated equipment) could lead to serious injuries, and in severe cases, fatalities. Public liability risks are also heightened.

The following representation by Deloitte illustrates how cyberthreats could impact the mining value chain.[3]

Cyber threat

Prospecting and Exploring

- **Geophysical evaluation**
- **Research and development**
- **Determining feasibility**

Prospecting and Exploring scenario #1:
Theft of geophysical surveys research reports and feasibility studies.

Risk: Attempts to extort money in exchange for keeping the information confidential, weakened negotiating position with local resource owners and governments damaged competitive positioning, and loss of value.

Developing

- **Permitting**
- **Operational logistics**
- **Building the mine**

Developing scenario #1:
Misappropriation of intellectual property such as production and processing methods, chemical formulae, and custom software.

Risk: Higher development costs, loss of competitive advantage, and erosion of site feasibility.

Mining

- **Extracting the ore**

Mining scenario #1:
Unauthorized access to and manipulation of automated equipment.

Risk: Financial loss, equipment damage, and health and safety concerns for miners and adjacent populations.

Mining scenario #2:
Breach of GPS deployment system.

Risk: Inappropriate mixing of ore grades or waste, health and safety issues, environmental concerns, and financial loss.

Mining scenario #3:
Breach of the mine monitoring system.

Risk: Shutdown of system for investigation, compromised equipment integrity, health and safety issues, and stolen data.

Processing

- **Refining**
- **Upgrading**

Processing scenario #1:
Interruption or tampering with operational controls.

Risk: Health and safety issues, operational downtime, sub-optimal yield from the ores, and revenue loss.

Marketing

- **Sales**
- **Trading**

Marketing scenario #1:
Theft of pricing data and customer information.

Risk: Damage to competitive positioning decreased market share, diminished reputation, and lower company valuations in M&A situations.

Employers' health and safety

To avoid emerging hazards, workers should be adequately trained to operate new machinery, as well as effectively and safely interact with the different technologies.

Regulatory non-compliance

The regulations governing sustainability and the application of technology, specifically AI, vary from one region to another. Failing to meet the different regulatory requirements and standards, as well as reporting obligations, further expose businesses to potential regulatory scrutiny. Non-compliance may lead to significant fines and/or loss of licenses to operate.

Ethical concerns

The use of AI and autonomous systems raise ethical questions, especially with regards to decision-making in critical situations. A major concern is the replacement of labour, especially in communities that heavily rely on jobs within the sector.

Business interruption (BI)

As more operations become interconnected and dependant on the evolving digital infrastructure, the likelihood and impact of business interruption is set to increase. The over-reliance on real-time or near real-time data, as well as smart machinery may expose businesses to severe interruptions as a result of cyberattacks, machinery failures or IT system downtime.

Is your insurance programme jeopardised?

Some insurers have pulled out from industries that are categorised as high-risk, or sensitive, due to misalignment with their own ESG targets and commitments. As a result, some businesses may face exclusions, restricted coverage, or no coverage at all.

> Whilst the approach varies across insurers and lines of insurance, the impact of ESG considerations has predominately been seen across D&O markets.

D&O liability and ESG

D&O insurers are studying ESG disclosures very carefully and testing companies' delivery plans for their commitments. If set targets are not met, it could potentially trigger an expensive lawsuit against the company by stakeholders and/or activists. With ESG-related claims on the rise and the trend seemingly set to increase in 2024, companies should go above and beyond to ensure their activities are fully understood by insurers. Listed companies are particularly in the spotlight, as their ESG disclosures are usually mandatory (depending on the jurisdiction) with boards held accountable for public statements made. This is attracting scrutiny from shareholders, analysts, and regulators as well as insurers.

To assess ESG-related risks, insurers are taking advantage of sector benchmarking assessments. These typically incorporate a combination of publicly available data, alongside questionnaires and data processed by internal analysts, often giving a result in the form of a numerical score. This score will provide an indication as to how a company is performing against others within their industry. Buyers should be aware of the monitoring that ESG rating agencies conduct and be prepared to provide comment or potentially submit additional information to insurers when appropriate. Some syndicates are focusing only on ESG-positive risks, selecting buyers with particularly high standards and a clean track record in areas such as health and safety and pollution. As such, a good ESG score may open up additional capacity.

Tailings risks are also subject to increased insurer scrutiny. The use of tailings storage facilities (TSF) has caused several catastrophic failures in recent years, creating a wide exposure for D&O insurers, who are now asking for greater access to information. Some are including tailings exclusions, decreasing limits, or withdrawing from the market altogether. Underwriting guidelines are now more stringent, and the risk appetite is subdued. Accordingly, it is critical to follow a globally approved framework and to effectively communicate risks. Buyers operating TSF need to have a strict governance plan in place that ensures effective implementation of the latest published guidance and best practice, as well as detailed documentation of measures to prevent failures.

Additional D&O considerations:

Mining type - insurers may set their own standards with regards to ESG, potentially excluding certain types of mining such as thermal coal, for example.

Geographical location - D&O insurers may feel less confident underwriting risks in regions where there is political instability or where the operations are at an early exploration stage.

In this changing landscape, it is crucial to consider the impact of innovations that are adopted in order to meet ESG targets. As discussed earlier, new integrated technologies to improve sustainability come with their own risks.

Increasing cyber concerns

Cyberattacks could disrupt operational continuity, employee safety, data security and privacy, resulting in significant financial losses, regulatory scrutiny, and reputational harm. Insurers now utilise additional data throughout the underwriting process. For example, how biometric data is being collected, handled, and stored. Inability to meet insurer requirements and market minimum cyber security standards may result in restricted coverage and exclusions.

> With the rising cost of losses, underwriters are looking to highlight the need for enhanced internal controls and the separation between operational and IT networks.

So, what should you do?

To ensure the success of the ongoing transition within the industry, you should consider the following factors.

Unintended consequences of sustainability – Businesses must not forget that with change comes new risks. It is important to assess potential risks associated with the ongoing digital transformation, changing operational environment, and evolving regulatory landscape.

Holistic risk management approaches to achieve corporate resilience – Businesses must adopt a holistic approach to risk, ensuring preparedness for unexpected, potentially catastrophic, events. Given the interconnectivity of risks, understanding the relationships between the triggers and how some risks may impact the frequency or severity of others is crucial for achieving resilience.

Specialised skillset to manage the ongoing digital transformation – Having the appropriate personnel to identify, assess, and manage the associated risks and opportunities is crucial for ensuring operational continuity and safety.

Early broker engagement to ensure fit-for-purpose insurance arrangements – Changes to a business should be promptly communicated with risk advisors, due to the impact on your risk landscape and insurance arrangements.

Comprehensive data gathering and reporting is crucial – Transparency is key, as stakeholders are demanding access to material information regarding the sustainability efforts and strategies deployed.

Robust internal governance policies – any form of transformation requires comprehensive and robust governance procedures and policies to manage the process, and to address any consequential vulnerabilities and exposures.

Cultural awareness is crucial – Good practice is enforced by a strong risk culture, which acknowledges the importance of a holistic risk management approach and the varying responsibilities across an organisation. Understanding the significance of the individual roles and contributions to the success of business objectives and strategies is crucial.

No industry is untouched by the inexorable transition towards sustainability, but global mining faces a particularly severe yet nuanced set of challenges. Your Lockton team will work with you to navigate this journey, building a strategy that responds to the changing landscape and positions your business for the future.

References:

1. EY (2023). Top 10 business risks and opportunities for mining and metals in 2024.

2. The Three Most Common Mining Industry Cyber Threats (2019).

3. Deloitte (2018). An integrated approach to combat cyber risk.

Seamless solutions built around you

Lockton's Mining Practice is a globally connected team with the capabilities and expertise to manage the complex exposures you face. As the world's largest privately owned broker, we help create the best value protection for your business throughout the project lifecycle.

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Today, we're a trusted partner to the Mining sector, working as an extension of your team to provide a full range of risk, insurance and people solutions across financing, construction, operational and mine closure.

A global network of specialists, direct access and leverage in the biggest markets globally, and strong analytical capability. We bring all this together to deliver optimum programme structures that facilitate best market outcomes for your business.

We don't shy away from challenging the status quo to look for solutions for the betterment of your business – including the use of non-traditional insurance solutions.

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