



A global sustainability framework and the largest collaborative initiative between the UN and the insurance industry

Sustainable insurance: Turning environmental, social and governance challenges into sustainable opportunities

Global Insurance Supervision Conference
6-7 September 2017, Frankfurt

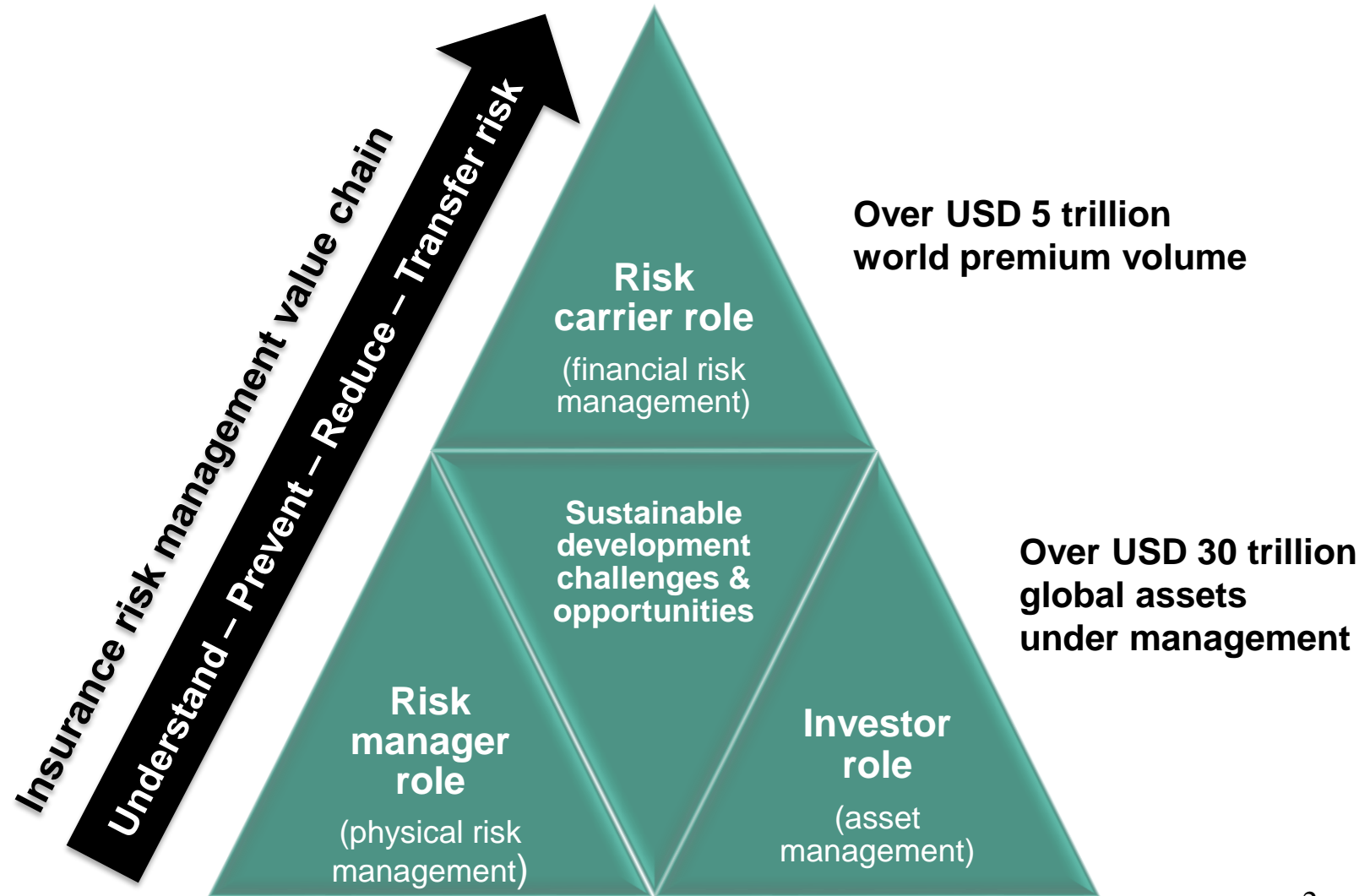
Butch Bacani
Programme Leader
UN Environment's Principles for Sustainable Insurance Initiative

The triple role of the insurance industry in sustainable development



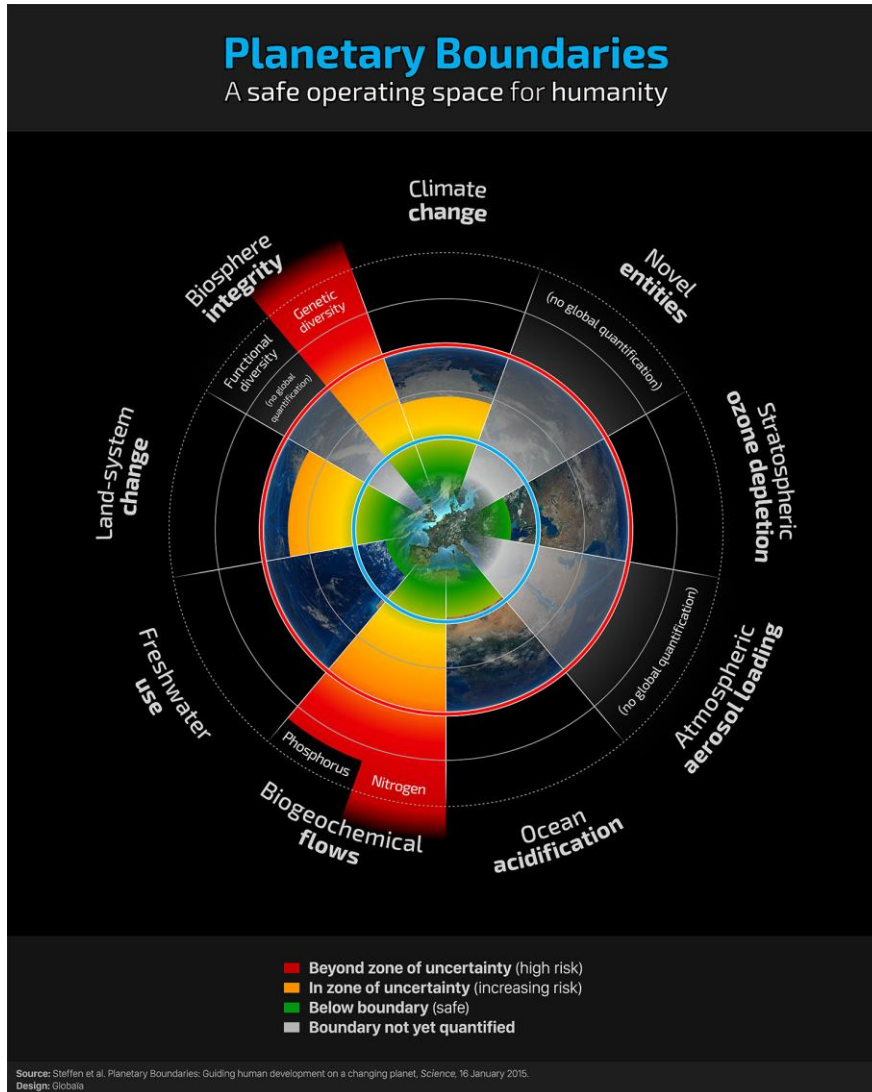
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Example of a changing risk landscape

The safe operating space of 4 of 9 interlinked planetary boundaries have already been exceeded



The 9 planetary boundaries

1. Change in biosphere integrity (biodiversity loss and species extinction)
2. Biogeochemical flows (nitrogen and phosphorus cycles)
3. Climate change
4. Land-system change (e.g. deforestation)
5. Ocean acidification
6. Freshwater use
7. Stratospheric ozone depletion
8. Novel entities (not yet quantified) (e.g. organic pollutants, radioactive materials, nanomaterials and micro-plastics)
9. Atmospheric aerosol loading (not yet quantified) (microscopic particles in the atmosphere that affect climate and living organisms)

Source: Steffen et al. 2015. Planetary Boundaries: Guiding human development on a changing planet. Science Vol. 347 no. 6223

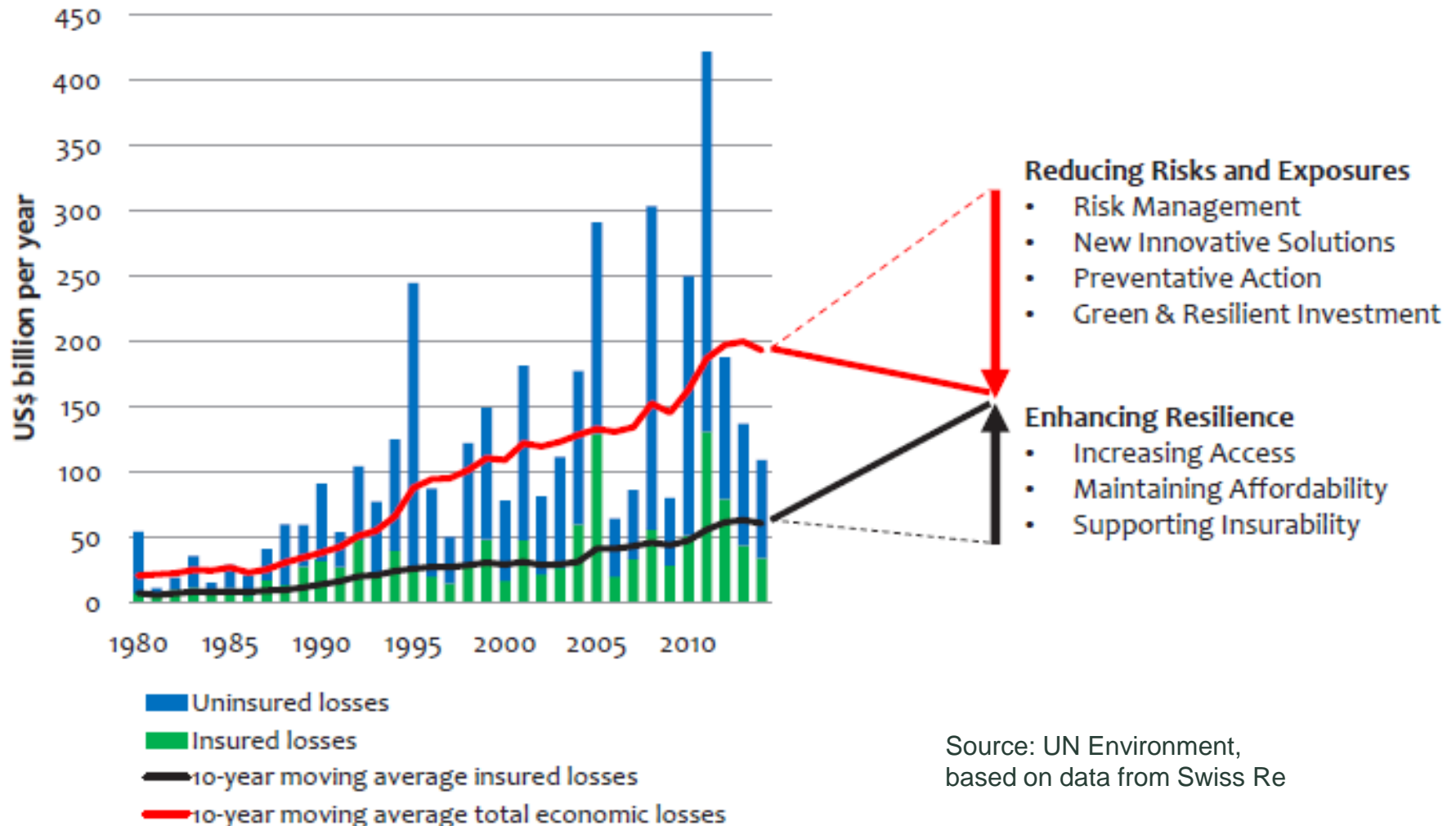
The sustainable insurance challenge



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Harness the insurance industry's role as risk managers, insurers and investors to close the protection gap and support a smooth transition to a sustainable economy





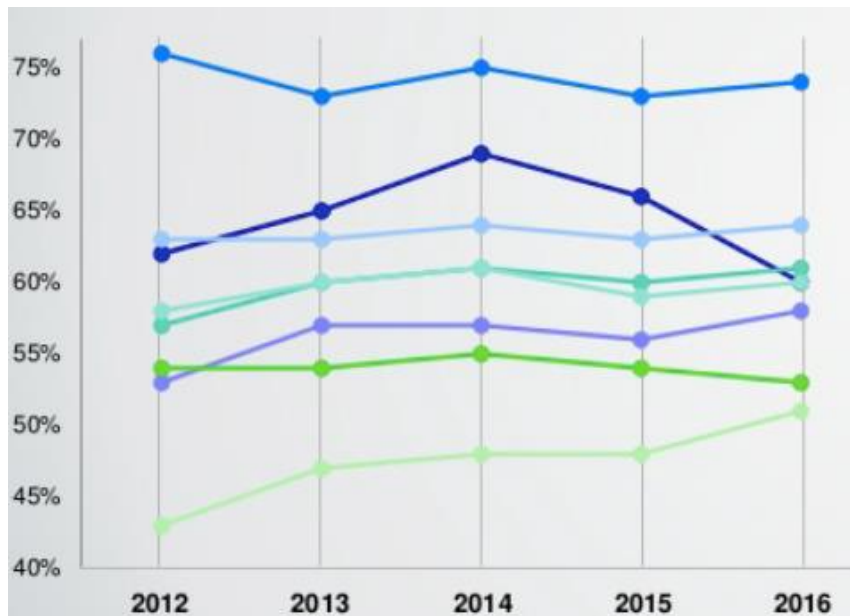
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Trust and reputation is a fundamental issue

Global survey: Financial services is least trusted across industries

Trust in each industry sector (2012-2016)



| Industry | 2012 | 2013 | 2014 | 2015 | 2016 | 5 yr. Trend |
|-------------------------|------|------|------|------|------|-------------|
| Technology | 76% | 73% | 75% | 73% | 74% | ▼ 2 |
| Food & Beverage | 63% | 63% | 64% | 63% | 64% | ▲ 1 |
| Consumer Packaged Goods | 57% | 60% | 61% | 60% | 61% | ▲ 4 |
| Telecommunications | 58% | 60% | 61% | 59% | 60% | ▲ 2 |
| Automotive | 62% | 65% | 69% | 66% | 60% | ▼ 2 |
| Energy | 53% | 57% | 57% | 56% | 58% | ▲ 5 |
| Pharmaceutical | 54% | 54% | 55% | 54% | 53% | ▼ 1 |
| Financial Services | 43% | 47% | 48% | 48% | 51% | ▲ 8 |

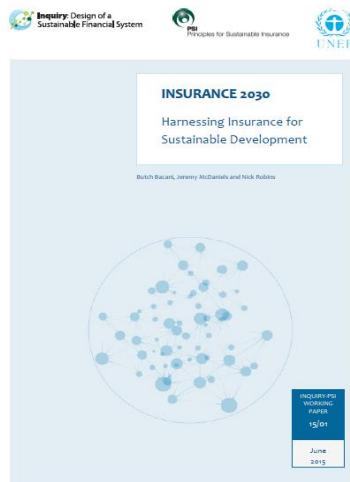
Source: 2016 Edelman Trust Barometer

Pioneering global studies by the UN and the insurance industry on environmental, social and governance risks and opportunities and sustainable development

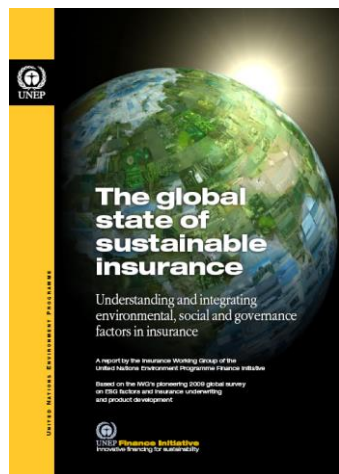
2007



2015



2009



Supported by UN Environment Executive Director & HRH The Prince of Wales



Examples of key ESG issues (or “sustainability issues”)

- Climate change & extreme weather events
- Natural disasters
- Biodiversity loss & ecosystem degradation
- Water scarcity
- Food insecurity
- Environmental pollution
- Violation of human rights & labour standards
- Social inequality & financial exclusion
- Emerging health risks & pandemics
- Ageing populations & demographic change
- Technological risks including big data
- Accountability & transparency issues
- Trust & reputation issues
- Unethical business conduct & practices
- Corruption
- Unfair treatment of customers

The Principles for Sustainable Insurance: A global roadmap to drive systemic change



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Principles for Sustainable Insurance

Principle 3:

We will **work together with governments, regulators and other key stakeholders** to promote widespread action across society on environmental, social and governance issues.

Principle 1:

We will **embed in our decision-making** environmental, social and governance issues relevant to our insurance business.

Public

Governments,
regulators &
other key
stakeholders

Clients &
business
partners

Own business
strategies &
operations

Principle 4:

We will **demonstrate accountability and transparency** in regularly disclosing publicly our progress in implementing the Principles.

Principle 2:

We will **work together with our clients and business partners** to raise awareness of environmental, social and governance issues, manage risk and develop solutions.

Launch of the PSI at Rio+20 Conference: Endorsed by UN Secretary-General and insurance CEOs worldwide



June 2012, Rio de Janeiro, Brazil



“The Principles for Sustainable Insurance provide a global roadmap to develop and expand the innovative risk management and insurance solutions that we need to promote renewable energy, clean water, food security, sustainable cities and disaster-resilient communities.

“With world premium volume of more than \$4 trillion and global assets under management of more than \$24 trillion, insurers that embed sustainability in their business operations can catalyze the kinds of financial and investment flows and long-term perspectives needed for sustainable development.

“The United Nations looks forward to working with all sectors of society towards the global embrace of this important new initiative as we shape the future we want.”

– Ban Ki-moon, UN Secretary-General



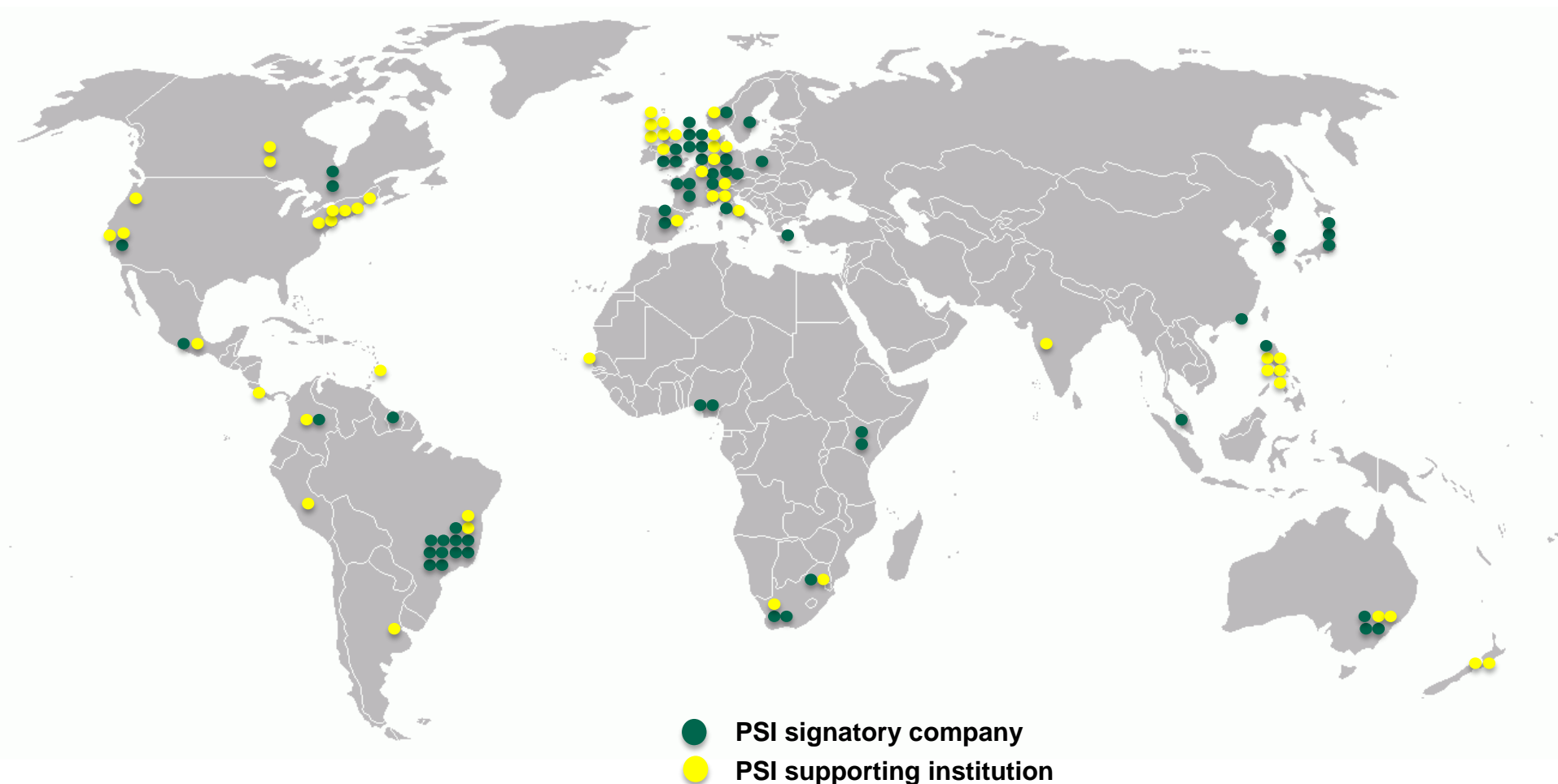
PSI membership by country of domicile



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- 107 members and growing
- Insurers representing over 20% of world premium + USD 14 trillion in assets under management
- Largest collaborative initiative between the UN and the insurance industry



PSI as a global sustainability framework for the insurance industry



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Dow Jones
Sustainability Indexes



FTSE4Good

Corporate
Sustainability
Index **ISE**



Swiss Re remains insurance industry leader in sustainability according to 2016 DJSI (Sep 2016)

“Swiss Re remains the insurance industry sector leader in the DJSI for the third consecutive year, and the tenth time since 2004”



FINANCIAL
STABILITY
BOARD



TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES

FSB Task Force on Climate-related Financial Disclosures (TCFD) supplemental guidance for insurance companies suggests the **alignment of recommended disclosures with other frameworks**

For "metrics and targets recommended disclosures", the guidance refers to **Principle 1 of the PSI** (Dec 2016)



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

"The launch of the SIF (Sustainable Insurance Forum for Supervisors) is timely. For example, the **Task Force on Climate-related Financial Disclosures (TCFD)**, which was established by the Financial Stability Board, released on 14 December 2016 its Recommendations Report for a 60-day public consultation."

– IAIS Newsletter (Dec 2016), International Association of Insurance Supervisors



**SUSTAINABLE
INSURANCE
FORUM**

Sustainability indices:

PSI part of insurance industry criteria of Dow Jones Sustainability Indices, FTSE4Good, and Brazil's BM&FBOVESPA Corporate Sustainability Index

AXA rewarded for its constant progress in sustainability (Sep 2016)

“Since 2006, AXA has improved its score in the DJSI. From 62/100 in 2006, its score has reached 85/100 in 2016”

Core Elements of Recommended Climate-Related Financial Disclosures



Governance

The organization's governance around climate-related risks and opportunities

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management

The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Swiss Re adopts FSB climate disclosure recommendations (Dec 2016)

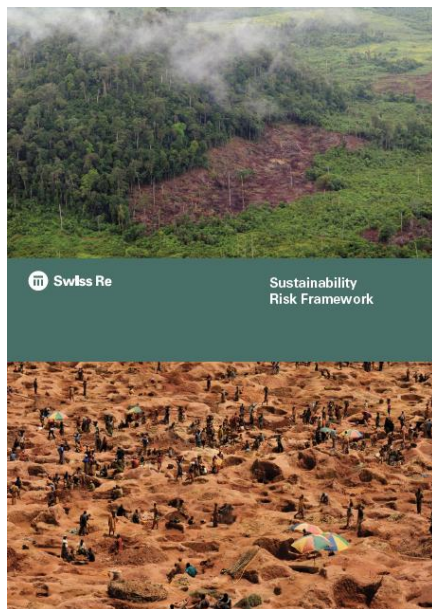
Sustainable Insurance Forum for Supervisors (SIF) issues statement supporting FSB climate disclosure recommendations (Jul 2017)

Principle 1:

Insurance industry leadership & commitments

Implementing the Principles: Examples

A company commitment



Swiss Re's Sustainability Risk Framework

Umbrella policies

- Human rights
- Environmental protection

Guidelines



- Animal testing
- Dams
- Defence sector
- Forestry, pulp & paper, palm oil
- Mining
- Nuclear non-proliferation
- Oil & gas

Swiss Re among first in the insurance industry to integrate environmental, social and governance (ESG) benchmarks into its investment decisions

(Jul 2017)

- Swiss Re publication explains why ESG integration makes economic sense for long-term investors
- Swiss Re selected benchmarks based on the MSCI ESG methodology for its equities and fixed income portfolios

Environmental, social and governance aspects

| Environmental, social and governance aspects | | |
|--|--|--|
|  |  |  |
| Environmental aspects | Social aspects | Governance aspects |
| Pollution | Political environment and public perception | Responsible and careful planning and assessment |
| Natural resources and biodiversity | Working conditions | |
| | Health and safety for the community | |
| | Resettlement of people | |
| | Cultural heritage | Compliance |
| | | Consultation and transparency |

Munich Re's processes, guidelines and tools to assess environmental, social and governance issues in insurance underwriting and investment

Allianz's screening process for environmental, social and governance issues in insurance and investment transactions

Implementing the Principles: Examples

A company commitment

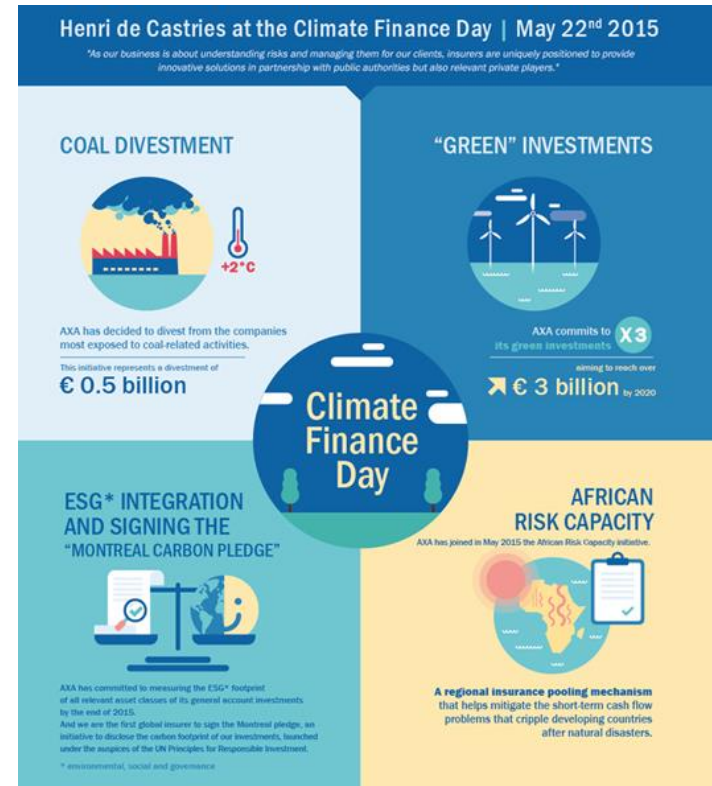


“The debate is no longer about whether, it's about when.

“As an insurer, I have personally witnessed many times humanity's capacity for resilience. This gives me hope that we will learn from the errors of the past and set ourselves on a path towards a more sustainable future, beginning here today and resulting in a comprehensive, fair and ambitious agreement this December. **In any case, we have no choice: a 2°C world might be insurable, a 4°C world certainly would not be.**”

- Henri de Castries, Chairman & CEO, AXA Group

22 May 2015, Climate Finance Day, Paris



**AXA's investment and insurance business:
AXA disengagement from coal-intensive business**



redefining / standards

**AXA GROUP POLICY ON
COAL MINING AND COAL-BASED ENERGY**

Principle 2:

Insurance industry partnerships

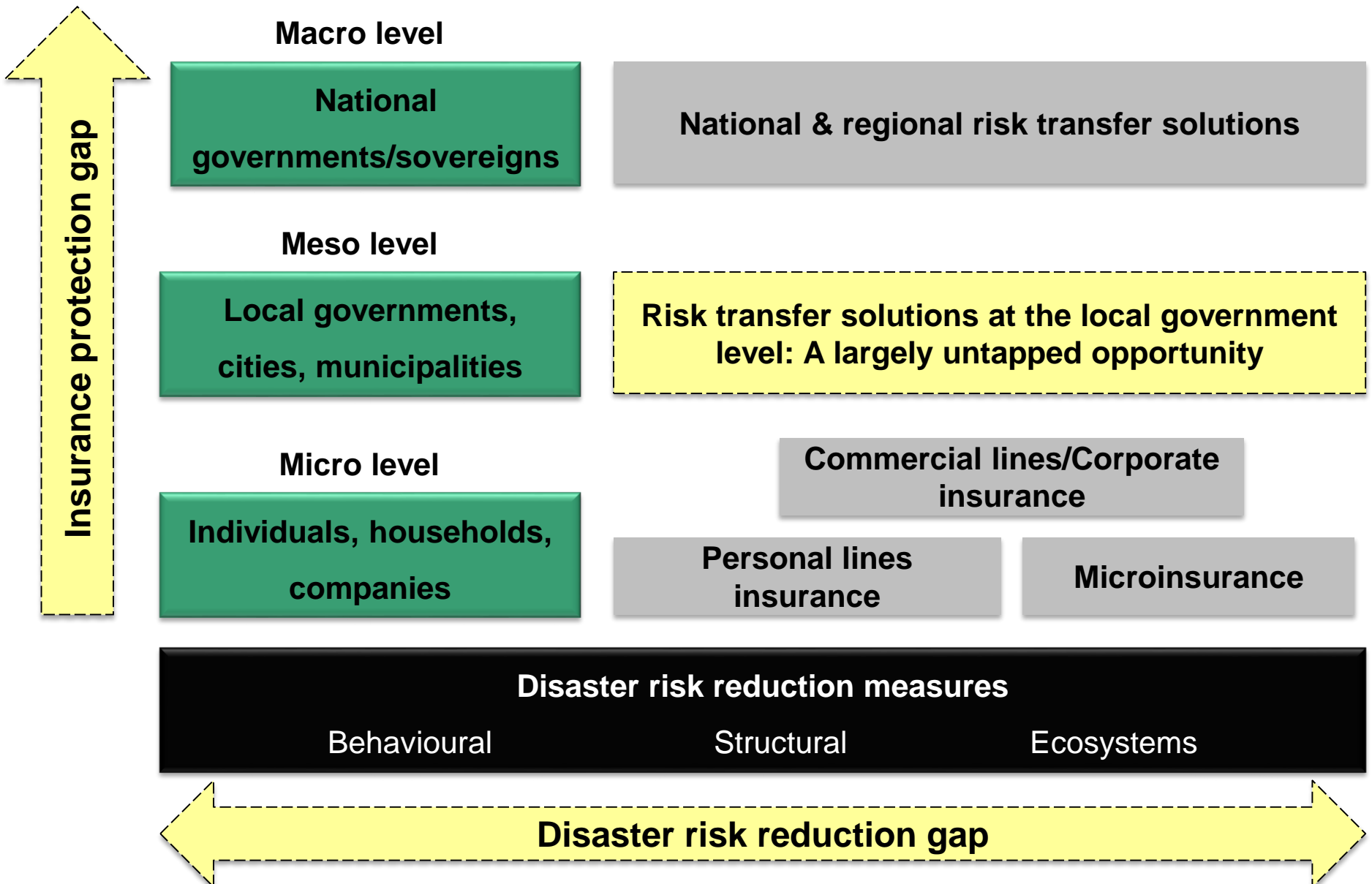
PSI Global Resilience Project led by IAG

Building disaster-resilient communities and economies



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AXA-PSI international climate resilience survey of cities & SMEs



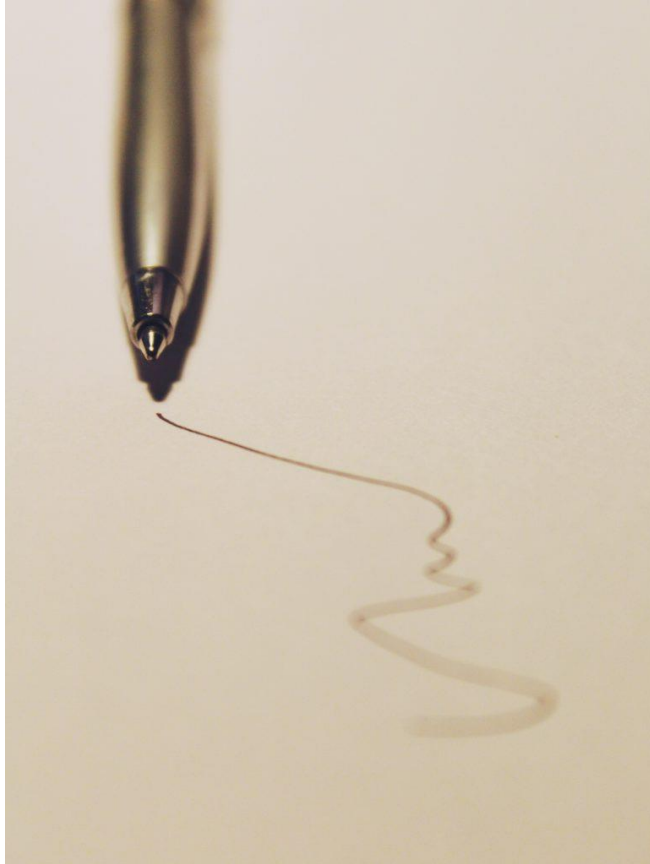
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- **Over 40 city/urban leaders** (e.g. mayors) in developed and developing countries
- **Over 1,100 small-to-medium-sized enterprises** (SMEs) in Europe, Asia & the Americas
- **Cities** emphasising need to **combine adaptation with mitigation** in climate change response
- Cities need to be **well prepared** to withstand climate impacts, including a **resilient economy**
- **Only 27% of SMEs are well prepared** for consequences of climate change; **only 27% adapting their business** to be more resilient
- **79% of SMEs** think insurers should do more to **help businesses adapt** to the consequences of climate change
- Adaptation and resilience should be **proactive and integrated** into business strategies. **Private sector engagement** is key



PSI global guidance on the integration of environmental, social and governance risks into insurance underwriting



- There is **no global guidance for the insurance industry on the integration of environmental, social and governance (ESG) risks into insurance underwriting for any line of business**
- Project an opportunity to **identify and define ESG risks from an insurance underwriting perspective**
- Aims to **engage insurance industry practitioners and stakeholders worldwide** to identify key ESG risks, priority lines of business, and types of insurance cover
- Aims develop a **shared understanding by the insurance industry** on how to approach ESG risks
- Aims to benefit the economy, society, and the environment by **preventing and reducing ESG risks**
- Aims to contribute to building a **sustainable financial system** and support the **UN Sustainable Development Goals, Paris Agreement on Climate Change, Sendai Framework for Disaster Risk Reduction, and UN Guiding Principles on Business and Human Rights** through improved risk management across the industry

World's first global investor statement in support of government action on tobacco control

- **Over 50 investors, health systems, pension funds and insurers** representing more than **USD 4 trillion in assets under management** have signed investor statement
- Per the WHO, tobacco consumption poses a **significant risk to global health and economies**
- Tobacco a primary driver of dramatic rise in chronic non-communicable disease, **killing more than 7 million people per year**, expected to rise to **8 million by 2030**, mostly in developing countries
- Unless urgent action is taken, tobacco-related disease is forecast to result in **one billion premature deaths during the 21st century**
- Smoking costs the global economy **more than USD 1 trillion a year**, far outweighing global revenues from tobacco taxes
- UN Sustainable Development Goal 3 (Health) target to **strengthen implementation of WHO Framework Convention on Tobacco Control**



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World's first insurance industry statement on marine insurance and healthy oceans



- Focus on **education and awareness building and risk management and underwriting** to help reduce and eliminate **illegal, unreported and unregulated fishing (IUU) fishing**
- In 2007, the quantity of **illegally caught seafood products imported into the EU was estimated at 500,000 tonnes, worth EUR 1.1 billion** (Source: Oceana)
- 2009 study estimated the **total value of illegal and unreported fishing losses worldwide** to be between **USD 10 to 23.5 billion annually**, representing **11 to 26 million tonnes of fish** (Source: Oceana)
- **UN Sustainable Development Goals 14** (oceans, seas and marine resources) **explicitly targets overfishing and IUU fishing** alongside the wider aim of conserving and protecting marine and coastal areas and ecosystems

PSI and microinsurance community's global partnership for sustainable development



Key topics:

- Client and impact metrics
- Distribution and technology
- Health
- SMEs and value chains
- Agriculture and climate risks
- Insurance regulation and supervision



International
Labour
Organization



IAIS

INTERNATIONAL ASSOCIATION OF
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Brazilian market collaboration on sustainable development



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2015 environmental, social and governance (ESG) goals by the Brazilian insurance industry



Through the work of the Brazilian Insurance Confederation's (CNseg) Sustainability & Innovation Committee

Goal 1:

40% of insurers will integrate environmental, social and governance criteria into their risk underwriting policy

Goal 2:

30% of insurers will have an environmental, social and governance engagement programme targeted at brokers

Goal 3:

50% of insurance industry will integrate official public policy from municipal, state and federal governments into their social responsibility policy

Goal 4:

50% of insurers will report on environmental, social and governance criteria

CNseg monitoring progress through surveys since 2014

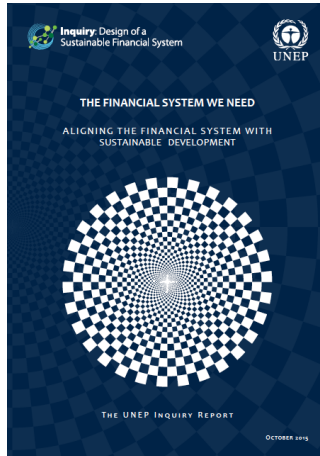
CNseg has developed “Balanced Scorecard for 2016-18” to measure progress in achieving strategic objectives on sustainability, including the ESG goals

Principle 3:

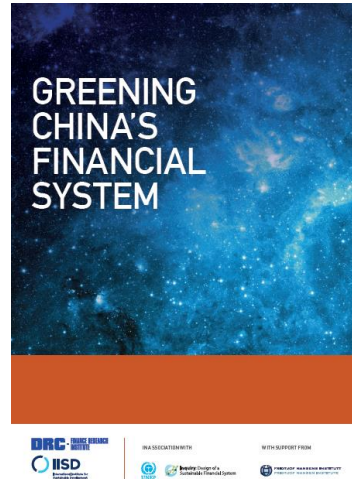
Financial policy & regulatory frameworks

UN Environment's Inquiry into the Design of Sustainable Financial System

2014



2014-15



2016



2016

G20 Green Finance Study Group launched by China as part of its 2016 G20 Presidency

Co-chaired by the People's Bank of China and the Bank of England

Non-G20 countries work stream

2015



China's green investment needs: USD 400 billion per year to finance green investment, but only 15% from public sources



**BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY**

Climate leadership via the PSI recognised by the Bank of England

"More widely, insurers had clear views on their role in driving a wider societal response to climate change. They believed that it was their responsibility to show leadership on the issue. This is taking a variety of forms, including participation in industry initiatives, such as...**becoming a signatory to the Principles for Sustainable Insurance...**"

2015



The impact of climate change on the UK insurance sector

A Climate Change Adaptation Report by the Prudential Regulation Authority

September 2015

EU High-Level Expert Group on Sustainable Finance



Source: European Commission

- **Recommendations for a comprehensive EU strategy on sustainable finance as part of the Capital Markets Union by the end of 2017**
- **European Commission will draw on recommendations to determine how to integrate sustainability considerations into EU's rules for the financial sector**

Insurance regulators and supervisors demonstrating leadership and commitment by signing the PSI



Argentina



Brazil



California



Costa Rica



The Philippines



Washington State



The Sustainable Insurance Forum for Supervisors (SIF)



Inaugural SIF meeting: 1-2 Dec 2016, San Francisco, USA



2nd SIF meeting: 1 Jul 2017, Windsor, UK

- SIF → Groundbreaking initiative to **strengthen insurance regulators' and supervisors' understanding of and responses to sustainability challenges and opportunities** for the insurance business. **UN Environment** serves as the **SIF Secretariat**
- **UN Environment and insurance regulators and supervisors** launched the SIF in San Francisco, USA in Dec 2016. Leadership group of 8 jurisdictions—**Brazil, France, Netherlands, Philippines, South Africa, UK, and California and Washington State in USA**—guided design of SIF
- SIF members and meeting participants so far include insurance regulators and supervisors of **Argentina, Australia, Brazil, France, Ghana, Jamaica, Japan, Mongolia, Morocco, Netherlands, Portugal, Singapore, South Africa, Sweden, UAE, UK, USA (California and Washington State), and the International Association of Insurance Supervisors (IAIS)**
- 2017 SIF work programme → **Disclosure, access & affordability, sustainable insurance roadmaps, climate risks, disaster risk reduction, capacity building for insurance regulators and supervisors**
- SIF has issued statement **supporting recommendations of Financial Stability Board's Task Force on Climate-related Financial Disclosures** (Jul 2017) → **First group of financial regulators** to do so
- SIF has published a **global stock-take of how insurance regulators and supervisors are managing sustainability challenges** (Aug 2017)

Principle 3:

Intergovernmental processes and initiatives

Insurers supporting UN global policy frameworks on sustainable development



“The **Sendai Conference** outcome represents the first step of our journey to a new future.” – Ban Ki-moon, UN Secretary-General

“United for Disaster Resilience Statement” developed by the PSI

A global commitment by the insurance industry to help implement the **Sendai Framework for Disaster Risk Reduction 2015-2030**

- Developing **risk reduction strategies and risk transfer solutions**
- Informing the debate on **land use, building codes and standards, and zoning** through insurance industry insights, data and tools
- **Protecting investments and economies** and creating long-term value through risk reduction and risk transfer strategies
- **Raising awareness of disaster risk and promoting disaster risk reduction**, in addition to developing **risk transfer solutions and making risk-sensitive investments**
- **Understanding and reducing risk** across industries and public sector entities through **strong risk management processes, models, analytics and metrics** developed by the insurance industry 28

Insurers supporting UN global policy frameworks on sustainable development

Sep 2015

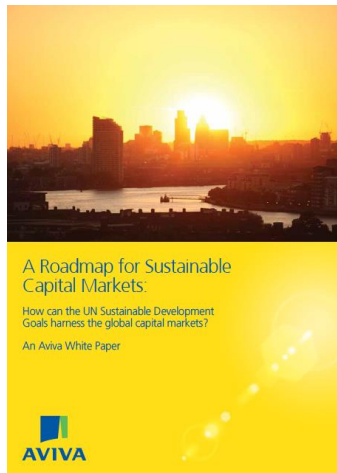


“Insurance sector initiatives... including the **UNEP FI Principles for Sustainable Insurance**...are demonstrating leadership in researching, debating and promoting the role of insurers in sustainable development.

“This includes an explicit recommendation to create a set of **Insurance Development Goals, based on a pioneering global consultation by the PSI Initiative and the UNEP Inquiry** on how insurance companies and insurance regulators could better support development through to 2030.”

– UN Global Compact & KPMG Sustainable Development Goal (SDG) industry matrix for financial services

Jun 2014



Sep 2015



UN General Assembly

The Paris Agreement on Climate Change



Key elements:

- Goal to limit global average temperature increase “to **well below 2 °C** above pre-industrial levels and **pursuing efforts** to limit the temperature increase to **1.5 °C**”
- **Adaptation and loss & damage**
- **Regular review and enhancement of ambition**
- Global **stock-taking of progress**
- **Climate finance**

Insurance in the context of the UN Framework Convention on Climate Change:

- **Warsaw International Mechanism for Loss and Damage** associated with Climate Change Impacts
- **Financial instruments (e.g. insurance, catastrophe bonds)** that address the risks of loss and damage
- Establishment of a **clearinghouse for risk transfer**



- Over **1,300 non-state actors**, including businesses, NGOs, and many insurers signed the Paris Pledge for Action

UN High-Level Meeting on Resilience

April 2016, UN Headquarters, New York

“The world needs your leadership to meet the climate challenge.”



Ban Ki-moon
UN Secretary-General

UN Secretary-General’s 5 new challenges to the insurance industry:

- Measure **carbon footprint** of investment portfolios by 2020, and **decarbonize investments**
- Double **investments in sustainable energy** by 2020
- Work with UN to ensure that **early warning and early action systems** are made available to most vulnerable countries by 2020
- Provide the most vulnerable with greater access to **risk transfer mechanisms**
- Develop **auditable standards** in insurance industry that incorporate the **Sustainable Development Goals**

Help achieve the 2030 UN Sustainable Development Goals through “Sustainable Insurance Underwriting Guidelines” and “Insurance Development Goals”



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SUSTAINABLE
DEVELOPMENT GOALS



The
Economist

The Economist's Insurance Summit 2016: Guardians of the Future

“Insurance 2030, a UN report from June 2015, explored how the insurance industry can be harnessed to support sustainable development.

“A recommendation was made to create **Insurance Development Goals** that align with the UN Sustainable Development Goals, in order to tackle issues of access to insurance, long-term investments, climate change and natural disasters.”

PSI & ICLEI – Local Governments for Sustainability global initiative to create “Insurance Development Goals for Cities”



“This landmark initiative by the insurance industry and cities is an **excellent example of the type of ambition and leadership needed to achieve the goals of the Paris Climate Change Agreement.**”

**Patricia Espinosa, Executive Secretary,
UN Framework Convention on Climate Change**

- Create "Insurance Development Goals for Cities", harnessing the insurance industry's role as **risk managers, insurers and investors** in the context of **UN Sustainable Development Goal for cities (SDG 11): "Make cities inclusive, safe, resilient and sustainable"**
- Develop **city-level sustainable insurance roadmaps**
- Organise first-ever **roundtable of insurance industry CEOs and city mayors at the ICLEI World Congress** in June 2018, Montreal, Canada)
- Example of SDG 11 target: “**By 2020, substantially increase** the number of cities and human settlements adopting and implementing **integrated policies and plans towards inclusion, resource efficiency, mitigation and adaptation to climate change, resilience to disasters**, and develop and implement...**holistic disaster risk management** at all levels”



Vision of UN Environment's Principles for Sustainable Insurance Initiative



“A risk-aware world, where the insurance industry is trusted and plays its full role in enabling a healthy, safe, resilient and sustainable society.”



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Insuring for sustainable development

www.unepfi.org/psi