The UNEP FI Principles for Sustainable Insurance

A global sustainability framework and initiative of the United Nations Environment Programme Finance Initiative

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UNEP FI Principles for Sustainable Insurance Initiative
The Principles for Sustainable Insurance Team of UNEP FI
The insurance industry

A global risk sharing system

Regulators

Service providers (e.g. car model vendors, loss adjusters, rating agencies)
The insurance industry

Major institutional investors

<table>
<thead>
<tr>
<th>Category</th>
<th>Assets under management (USD trillion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension funds</td>
<td>29.9</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>24.7</td>
</tr>
<tr>
<td>Insurance funds</td>
<td>24.6</td>
</tr>
<tr>
<td>Sovereign wealth funds</td>
<td>4.2</td>
</tr>
<tr>
<td>Private equity</td>
<td>2.6</td>
</tr>
<tr>
<td>Hedge funds</td>
<td>1.8</td>
</tr>
<tr>
<td>Exchange traded funds</td>
<td>1.3</td>
</tr>
<tr>
<td>Private wealth*</td>
<td>42.7</td>
</tr>
</tbody>
</table>

*Around one-third of private wealth is incorporated into conventional investment management

Source: TheCityUK estimates
The insurance industry
Uniquely positioned to tackle
environmental, social and governance (ESG) issues
What are ESG issues?

No definitive list of ESG issues exists, but they typically display one or more of the following characteristics:

- Issues that have traditionally been considered non-financial or not material
- A medium or long-term horizon
- Qualitative objects that are not readily quantifiable in monetary terms
- Externalities (costs borne by other firms or by society at large) not well captured by market mechanisms
- A changing regulatory or policy framework
- Patterns arising throughout a company’s supply chain (and therefore susceptible to unknown risks)
- A public concern focus
ESG issues in an insurance context

- Span a wide range of business risks and interrelated with ‘emerging risks’ and ‘reputation risks’
- Can be interrelated issues

Example:
- Rapid population growth and movement of over 50% of the world’s population to cities → Increasing vulnerability of cities and coastal areas to rising frequency of extreme weather events, floods, earthquakes and other catastrophe risks
- Substandard housing and living conditions, inadequate sanitation and waste management, food and water safety problems, pollution, congestion, unhealthy lifestyles → Infectious diseases, chronic non-communicable diseases, and risks from accidents, injuries, violence and crime
- Cities → Responsible for over two-thirds of global energy consumption and greenhouse gas emissions

- Are dynamic and can change over time
- Becoming a widely accepted term in the investment and insurance industries
Research foundation (2007)

- Agenda-setting report identifying global ESG issues for the insurance industry
- Good practices in sustainable insurance strategies, products and services
Key ESG issues and the insurance industry

- Climate change and extreme weather events
- Natural catastrophe risks
- Disaster risk reduction
- Resource depletion
- Biodiversity loss and ecosystem degradation
- Water management and scarcity
- Food insecurity
- Pollution
- Human rights and labour standards
- Social and financial exclusion
- Emerging health risks and pandemics
- Ageing populations
- Regulations (building codes, workplace and product safety, environmental liability)
- Disclosure, transparency and accountability
- Business principles and ethics (duty of care to stakeholders)
- Alignment of interests (internal and external stakeholders)
UN goals

- UN Millennium Development Goals
- Hyogo Framework for Action 2005-2015: Building the resilience of nations and communities to disasters
- ILO’s Declaration of Fundamental Principles and Rights at Work
- Rio Declaration on Environment and Development
- Universal Declaration of Human Rights
- UN Convention against Corruption
- UN Convention on Biological Diversity
- UN Framework Convention on Climate Change
- UN Global Compact Principles
- UNEP Green Economy Initiative
Research foundation (2008-09)

- First-ever global survey on ESG issues and the insurance industry
- Supported by leading academic institutions
- Supported by the UNEP Executive Director & HRH The Prince of Wales
UNEP FI global survey on insurance and climate change adaptation (2011)

- Influencing factors → Scientific and climate evidence, insurance claims data
- Climate-related risks increasing in relevance to risk management and risk transfer activities across lines of insurance over time
- Response to climate-related risks reflected in underwriting, quantification and modelling, loss prevention, research, product development, mapping, survey
- Various indemnity and index-based insurance products relevant to climate-related risks
- Risk management solutions → Land use, flood control, zoning, ecosystems, resilient infrastructure, drainage system
- Risk transfer solutions → Public-private partnerships, insurance for low-income communities
- Local government action → Public infrastructure and management systems
- National government action → Disaster planning and management, infrastructure regulations, climate policy dialogue with insurance industry
- Intergovernmental action → Better weather data, asset statistics, loss models, climate research in the context of adaptation and insurance
What is sustainable insurance?

- Not about philanthropy
- Recognises fundamental economic value of natural capital, social capital and good governance
- Supports Bruntland Commission’s definition of sustainable development
- Strategic approach
  - Systematically identify, assess, manage and monitor risks and opportunities in the insurance business associated with ESG issues
  - Reduce risk, develop innovative solutions, improve business performance
  - Contribute to environmental, social and economic sustainability
Primary aims of the PSI Initiative

- Create voluntary and aspirational global principles, including possible actions, to manage risks and opportunities in the insurance business associated with environmental, social and governance issues.

- Establish a United Nations-backed, insurance industry-led initiative to drive the adoption and implementation of the Principles.
The PSI: Designed by and for the insurance industry

- **All lines of insurance**
  - Accident & Health
  - Agroforestry
  - Aviation
  - Casualty/Liability
  - Credit & Surety
  - Engineering
  - Life
  - Marine
  - Motor
  - Property

- **All insurance market participants**
  - Risk carriers (i.e. insurers, reinsurers, retrocessionaires)
  - Risk intermediaries (i.e. agents, brokers)
  - Risk service providers (e.g. risk model vendors, rating agencies, consultants)

- **All regions**
  - Africa, Asia, Europe, Latin America & the Caribbean, Middle East & North Africa, North America, Oceania
Structure of the PSI

Aligned with an insurer’s spheres of influence

- All stakeholders
- Government, regulators & other key stakeholders
- Clients & business partners
- Own business strategies & operations
The UNEP FI Principles for Sustainable Insurance

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

2. We will work together with our clients and business partners to raise awareness on environmental, social and governance issues, reduce risk and develop solutions.

3. We will work together with government, regulators and other key stakeholders to promote collective action in managing environmental, social and governance issues.

4. We will demonstrate accountability and transparency in regularly disclosing to our stakeholders our progress in implementing the Principles.
A closer look at the PSI

1. Company-wide strategy, risk management & underwriting, product & service development, claims management, sales & marketing, investment management

2. Clients, suppliers, insurers, reinsurers, intermediaries and other market participants

3. Government, regulators, intergovernmental & non-governmental organisations, business & industry associations, academia & scientific community, media

4. Disclosing to all stakeholders
The PSI Disclosure Framework: Context

- **First two years of disclosure** → Pilot phase
- **Development process** → Global, inclusive and consultative
- **Purpose** → Demonstrate accountability and transparency to all stakeholders on implementation progress
- **Who** → All signatories required + CEO commitment
- **To whom** → All stakeholders and UNEP FI
- **Where** → Public disclosure
- **When** → Annual
- **What** → Progress against signatory-determined aspirations and targets for each Principle in the context of managing ESG issues
The PSI Disclosure Framework: Sample questions

**At the principle level (for Principles 1, 2 and 3 only)**

- What are your aspirations and targets for this Principle?
- How do you plan to achieve them?
- What is your timeframe to achieve them?
- What key actions have you taken to date to achieve them (i.e. demonstrate progress)?

**At the ‘all principles’ level**

- How were your aspirations and targets developed?
- How often do you review them?
- Which stakeholders have you consulted in setting them?
Hallmarks of the PSI

Principles of Sustainable Insurance

- Risk management
- Transparency
- Responsibility
- Sustainability
- Risk management
- Stakeholder dialogue
- Inclusiveness
- Innovation
- Resiliency
The PSI development process: Global, inclusive and consultative

Over 500 insurance industry players and stakeholders
Engagements via the PSI development process

- **Chief Risk Officers Forum →** Leading professional group developing and promoting insurance industry best practices in risk management

- **National insurance associations →** Australia, Bermuda, Brazil, Canada, Germany, Japan, Malaysia, Mauritius, New Zealand, Nigeria, Philippines, South Africa


- **UN system and initiatives →** UNEP, UN Framework Convention on Climate Change, UNEP FI and UN Global Compact Principles for Responsible Investment, UN Global Compact, International Finance Corporation

- **Service providers, NGOs, academia and others →** AM Best, Standard & Poor’s, oekom, Sustainalytics, Institute for Catastrophic Loss Reduction, Global Reporting Initiative, International Integrated Reporting Committee, The Prince’s Accounting for Sustainability Project, Oxfam, WWF, accounting firms, universities
Global launch of the PSI
The insurance industry and sustainable development

June 2012, Rio de Janeiro, Brazil
Turning the PSI into practice

A United Nations-backed global insurance initiative to drive the adoption and implementation of the Principles

Mainstream sustainable insurance

- Working with government, regulators and other key stakeholders
- Working with UNEP and the UN system
- Implementation of PSI across insurance lines and geographies
- World’s insurance industry players as signatories

Global research and training centre on risk, insurance and ESG issues

Regional and academic networks

Global research and training centre on risk, insurance and ESG issues
The Principles for Responsible Investment

2007

‘I applaud the leadership of the institutions that have committed themselves to this undertaking, and urge other investors around the world to join this historic effort.’

Ban Ki-moon
UN Secretary-General
1000 signatories from 50 countries
USD 30 trillion in assets under management
The United States: Over 130 PRI signatories

- California Public Employees’ Retirement System
- California State Teachers’ Retirement System
- Connecticut Retirement Plans and Trust Funds
- Illinois State Board of Investments
- International Finance Corporation
- Los Angeles County Employees Retirement Association
- Maryland State Retirement and Pension System
- Nathan Cummings Foundation
- New York City Employees Retirement System
- New York State Local Retirement System
- State Universities Retirement System of Illinois
- Universal Health Care Foundation of Connecticut
- Albright Capital Management
- BlackRock
- Calvert Investments
- ClearBridge Advisors
- Goldman Sachs Asset Management
- JP Morgan Asset Management
- Kohler Kravis Roberts
- Russell Investments
- Teachers Insurance and Annuity Association – College Retirement Equities Fund
- Bloomberg
- Ceres
- RogersCasey
- Thomson Reuters
- Towers Watson
The PRI Initiative: Implementation in action

- PRI Engagement Clearinghouse
- PRI Reporting and Assessment Tool
- PRI Enhanced Research Portal
- PRI in Practice
- PRI Small Funds Initiative
- PRI in Public Equity
- PRI in Private Equity
- PRI in Property
- PRI in Fixed Income
- PRI in Microfinance and Impact Investing
- PRI in Hedge Funds
- PRI in Infrastructure
- PRI in Commodities
- PRI Thematic Investments (e.g. clean tech, forestry, water)
- PRI Public Policy Network
- PRI Academic Network
- PRI in Person Annual Event
- PRI country networks (Australia, Brazil, Canada, Japan, South Africa, South Korea, US and more under consideration)
- PRI Secretariat with over 30 staff members and growing
The United Nations and the PRI Initiative
5 years after the 2006 launch

April 2011, UN Headquarters, New York

UN Secretary-General confirms importance of the private sector and the PRI’s work with the investor community to deliver a sustainable future
The PSI and PRI
A holistic global sustainability framework for the insurance industry

Principles for Sustainable Insurance
Principles for Responsible Investment

Insurance management
Investment management

Core business strategies and operations
Total balance sheet approach

Asset side
Liability side
Putting the PSI in perspective
The missing link

ESG issues across industry sectors

ESG issues across the financial sector

IFC Equator Principles (project finance)
UNEP FI Principles for Sustainable Insurance
UNEP FI & UN Global Compact Principles for Responsible Investment

UN Global Compact Principles
A vision for the first 5 years of the PSI

- 1000 signatories globally and 50% of world premium volume

- ESG guidelines, research and training across geographies and insurance lines → Accident & Health, Agroforestry, Aviation, Casualty/Liability, Credit & Surety, Engineering, Life, Marine, Motor, Property

- Global hub for long-term collaboration between the insurance industry, government and the UN system → local, national, international levels of government; UNEP, UN Framework Convention on Climate Change, UN International Strategy for Disaster Reduction, UN Global Compact, World Health Organization, World Meteorological Organization and others

- Constructive dialogue with and support from insurance regulators and associations, business & industry, NGOs, academia & scientific community, media

- PSI Disclosure Framework as a global foundation of insurer accountability and transparency in managing ESG issues

- Risk management and insurance solutions that strengthen the insurance industry’s contribution to building a resilient, inclusive and sustainable economy and society
The NAIC and PSI: Initial thoughts for discussion

I. Disclosure

■ How can we maximise the synergy between the NAIC Insurer Climate Risk Disclosure Survey and the PSI Disclosure Framework as far as delivering value to policyholders, regulators, rating agencies, investors and other stakeholders?

II. Risk management, governance, solvency and financial stability

■ What are the links between the PSI and the Core Principles of the US Insurance Financial Solvency Framework?

  o US Principle 1 → Financial reports used to assess the insurer’s risk and financial condition; contain both qualitative and quantitative information and updated as necessary to incorporate significant common insurer risks

  o US Principle 2 → Offsite solvency monitoring used to assess on an on-going basis the financial condition of the insurer as of the valuation date and to identify and assess current and prospective risks through risk-focused surveillance

  o US Principle 3 → Risk-focused, onsite examinations in which the insurer’s corporate governance, management oversight and financial strength are evaluated, including the system of risk identification and mitigation both on a current and prospective basis
The NAIC and PSI: Initial thoughts for discussion

- What are the links between the PSI and the Insurance Core Principles (ICP) of the International Association of Insurance Supervisors (IAIS)?
  - ICP 7 → Corporate governance
  - ICP 8 → Risk management and internal controls
  - ICP 15 → Investment
  - ICP 16 → Enterprise risk management for solvency purposes
  - ICP 19 → Conduct of business
  - ICP 20 → Public disclosure

- What are the links between the PSI, macroprudential surveillance and financial stability?

- How else can the PSI complement prudential insurance regulation and supervision?

III. Working together

- How can UNEP FI work with the NAIC in addressing climate change?

- How can UNEP FI work with the NAIC to support the adoption and implementation of the PSI?