



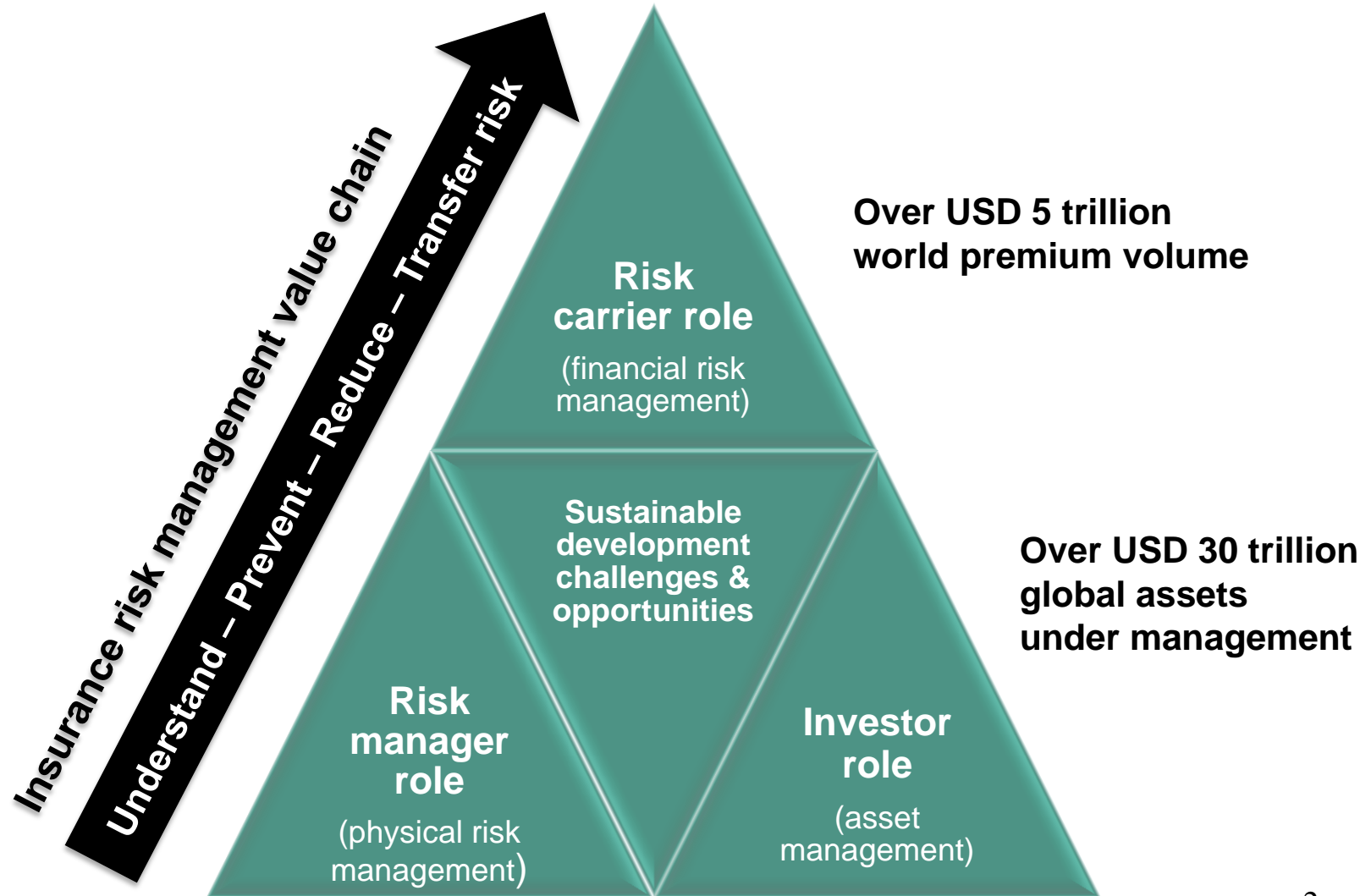
**A global sustainability framework and the largest collaborative initiative between the UN and the insurance industry**

# **New financing approaches, instruments and opportunities that address the risks of loss and damage**

**2016 Forum of the UNFCCC Standing Committee on Finance  
5-6 September 2016, Manila**

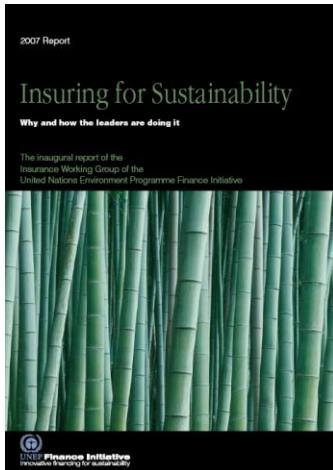
Butch Bacani  
Programme Leader  
UNEP FI Principles for Sustainable Insurance Initiative

# The triple role of the insurance industry in sustainable development



# Global studies by the UN and the insurance industry on environmental, social and governance (ESG) risks and opportunities relevant to insurance

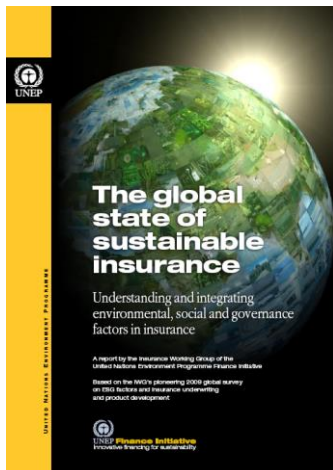
2007



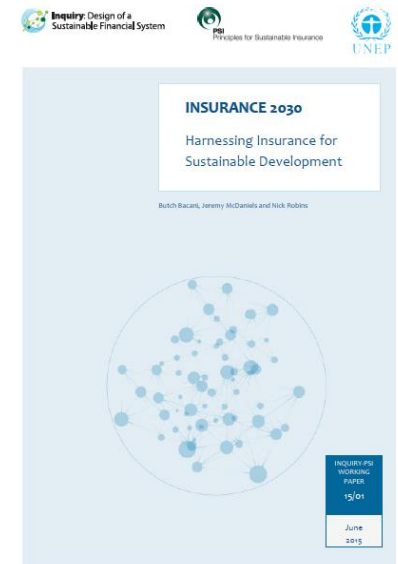
## Examples of key ESG issues (or “sustainability issues”)

- Climate change
- 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

2009



2015

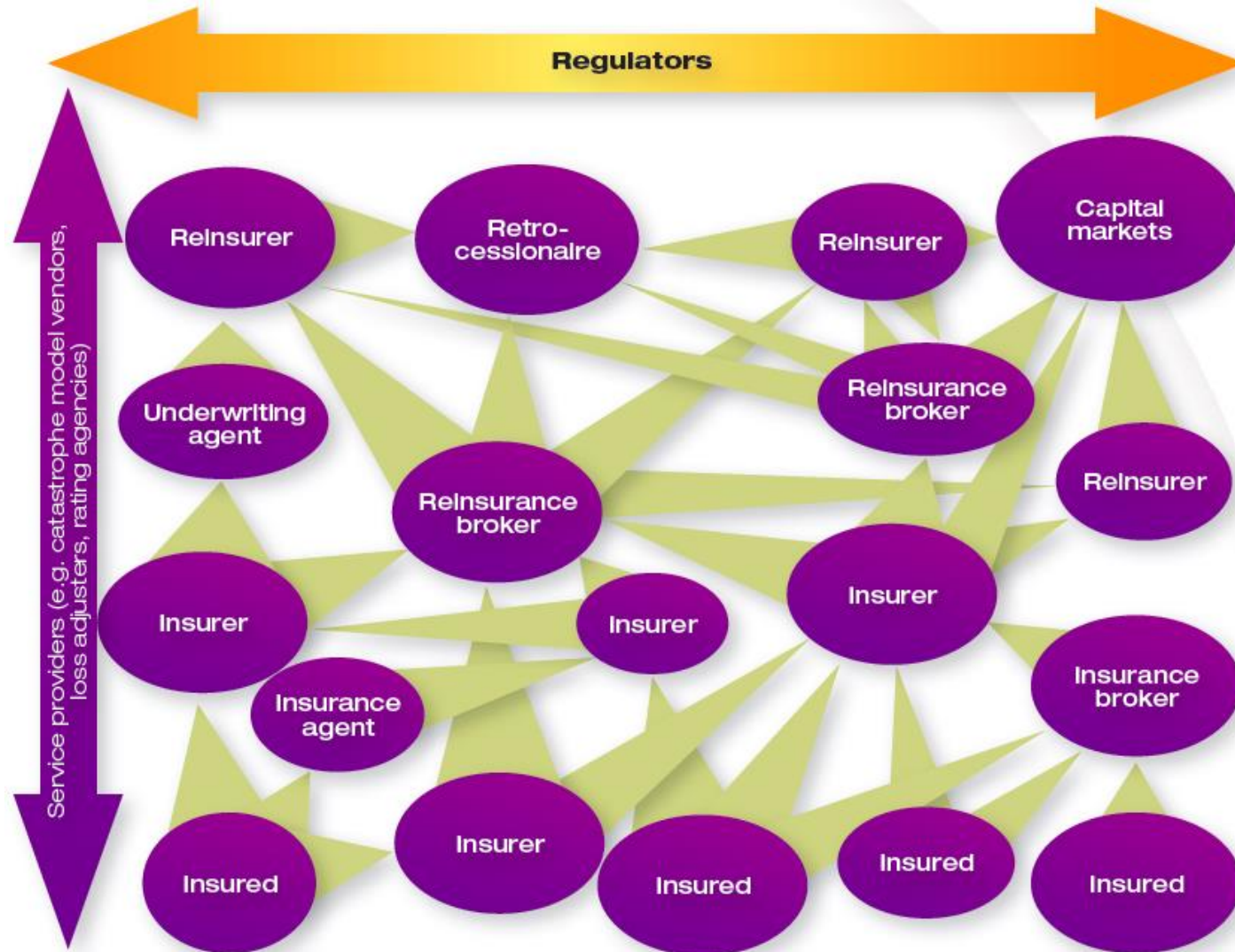


# A global risk sharing system



PSI  
Principles for Sustainable Insurance

## How risks are spread in the insurance industry

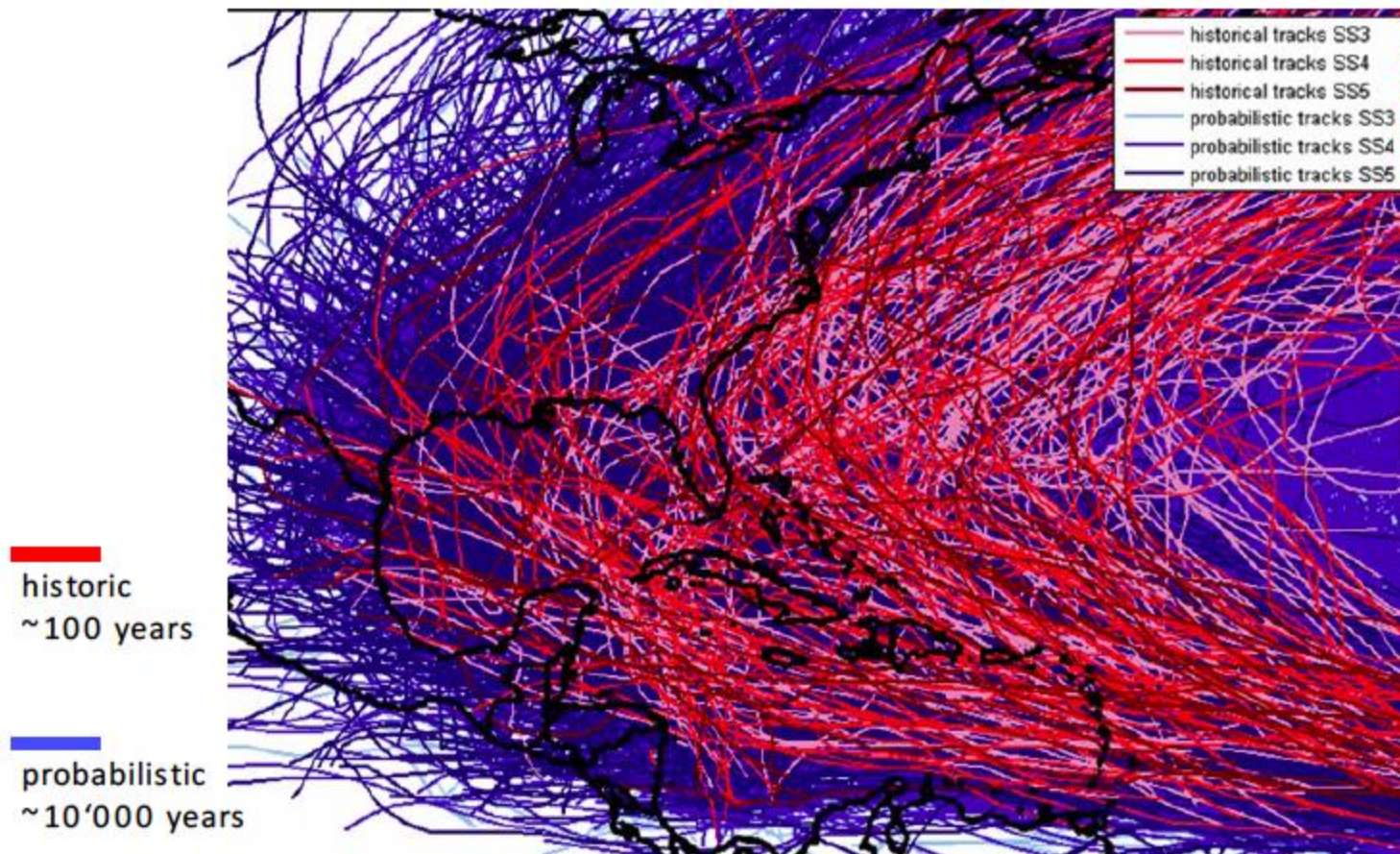




# Approaches to understanding risk



# Probabilistic modelling allows estimation of average expected losses at any given location



# Oasis Loss Modelling Framework

## Mission:

- **Improve risk assessment** through better models, transparency, performance, and innovation
- Provide **open source, plug and play**, catastrophe risk modelling platform
- Establish a **commercially vibrant community of providers and users** of Oasis software, models, data, and tools

## Challenges being tackled:

- **Lack of capacity** on how to evaluate and communicate risks
- **Lack of transparency** on how risks are estimated, inability to verify or manipulate underlying assumptions or parameters
- **Insufficient hazard, vulnerability and exposure data and risk models** to assess and price the severity and probability of losses
- **Duplication of efforts and lack of standards**, resulting in “reinvention” of models, platforms, data and information
- **Inadequate insurance coverage** particularly in developing countries highly vulnerable to climate and disaster risks

## Promoting risk modelling beyond insurance

### UNEP and insurance industry working with institutional investors

- Demonstrating value of catastrophe risk modelling to **largest responsible investment initiative initiative, representing more than USD 60 trillion in assets under management**

### UNEP working with Risk Management Solutions, Global Canopy Programme, German International Cooperation (GIZ) and German Federal Ministry for Economic Cooperation & Development (BMZ)

- Pilot project on **environmental stress testing**
- Develop and test an **analytical framework and model for banks** to test the potential impact of **drought events on their corporate loan portfolios**



# Approaches to reducing risk

# The Australian Business Roundtable for Disaster Resilience & Safer Communities



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UN World Conference on  
Disaster Risk Reduction  
2015 Sendai Japan

**Awarded certificate of distinction at 2015 UN Sasakawa Awards for Disaster Reduction**

**Australian government investment**

**Disaster risk reduction  
\$50 million**

**Post-disaster relief & recovery  
\$560 million**

- Economic costs of natural disasters in Australia average \$6.3 billion each year, projected to rise to \$23 billion by 2050. **But for every \$10 spent on post-disaster relief & recovery by Australian government, only \$1 is spent on disaster risk reduction**
- In Dec 2012, **Insurance Australia Group (IAG)** initiated the formation of the Australian Business Roundtable for Disaster Resilience & Safer Communities, working with **Investa (property developer), Munich Re (reinsurer), Optus (telecom), Westpac Group (bank), and the Australian Red Cross**
- In Sep 2014, Australian government's Productivity Commission released a draft report recognising the inequality of current natural disaster funding arrangements, taking on board recommendations put forward the Australian Business Roundtable in the "Building an open platform for disaster resilience decisions" research paper
- Commission echoed the call for federal government to spend more on disaster risk reduction and less on subsidising state government clean-up programmes. From 2007-14, it estimates that **97% of federal payments to state and local bodies were for rebuilding, as opposed to only 3% for risk reduction**
- **Commission recommend that the Australian government increase its state funding for disaster risk reduction to \$200 million.** Supports the Roundtable's research, identifying economic savings of up to \$14.6 billion by 2050 through nationally-coordinated disaster risk reduction investment, improved access to information, and prioritised research

# The PSI Global Resilience Project

## Building disaster-resilient communities and economies

Collaborative project led by Insurance Australia Group

### Phase 1 (2014)

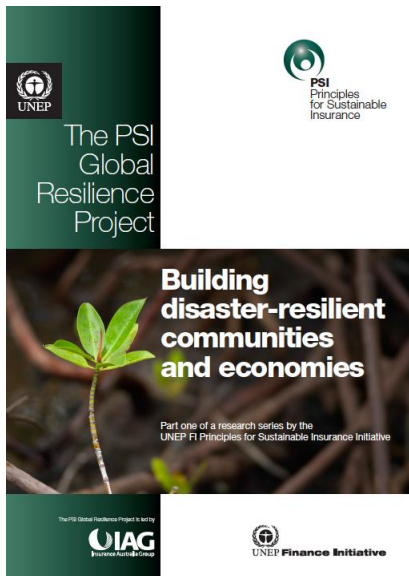
Global research on disaster risk reduction measures

### Phase 2 (2015)

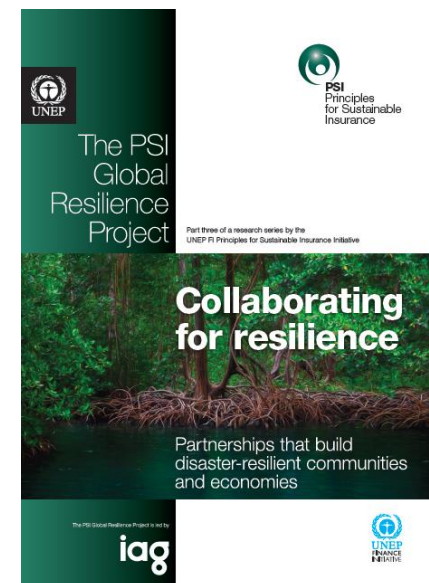
Publicly accessible online global risk map

### Phase 3 (2015-16)

How-to resilience guide + country engagements

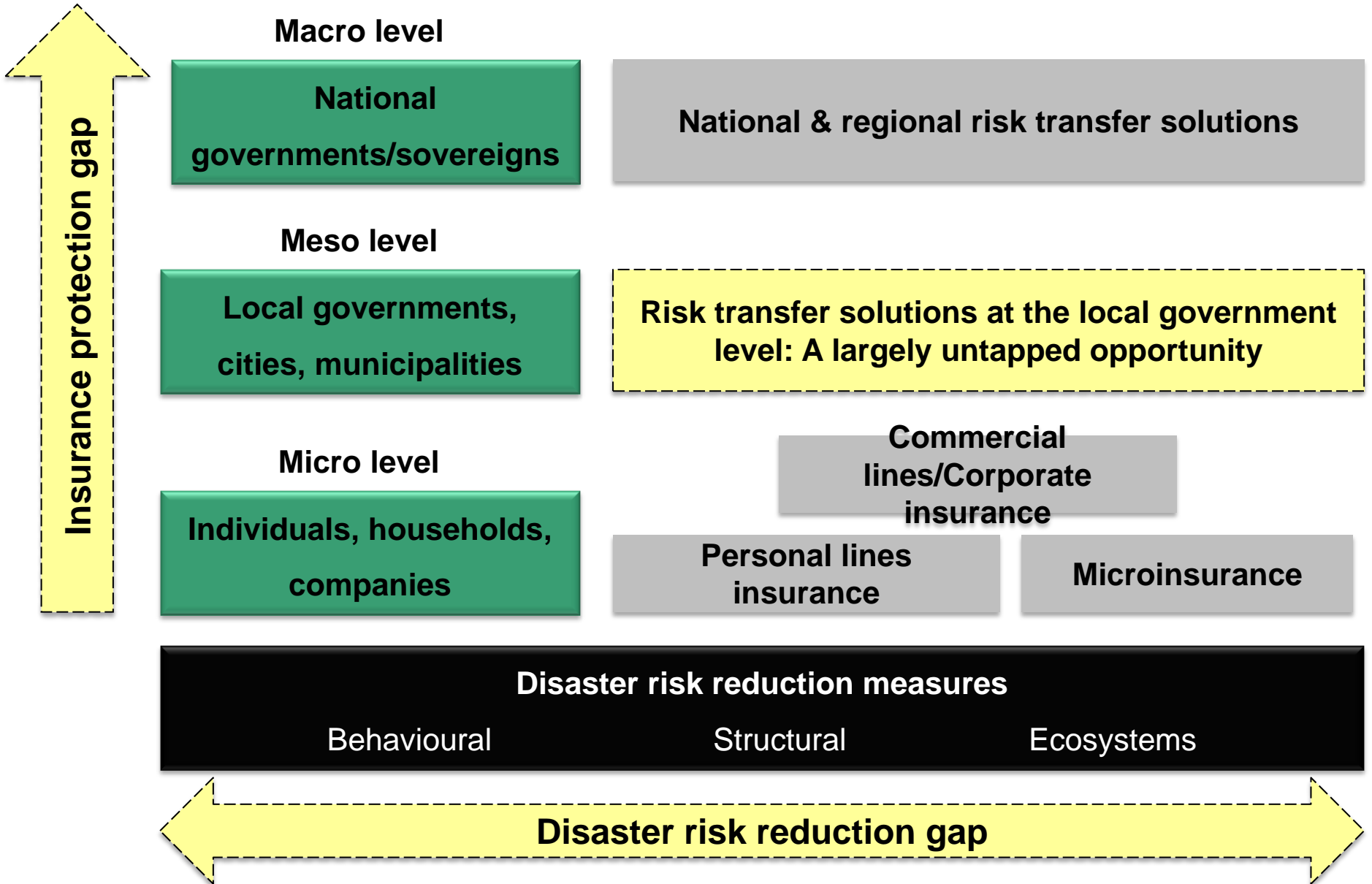


<http://globalriskmap.nicta.com.au>



# The PSI Global Resilience Project:

Linking disaster risk reduction and risk transfer/insurance



# Approaches to transferring risk



- **Parametric risk transfer provider backed by a third-party capitalised fund, focused on reducing the insurance protection gap in vulnerable communities in developing countries**
- **Backed my strong science and risk modelling**, mandate is to offer parametric risk transfer to organisations (e.g. NGOs, development banks, microfinance providers, municipalities) while sharing the risk with third-party investors via an investment fund structure (Natural Disaster Fund)
- Funded for launch by German government's Climate Insurance Fund, run by KfW (German Development Bank) and supported by UK Department for International Development, aims to be **independent going concern within a few years**
- Backed by the Natural Disaster Fund, **capitalised by public financing and third-party capital providers** (e.g. investors in insurance-linked securities, investment funds, insurers and reinsurers),
- Aims to **transfer risks efficiently and diversify risks globally** to lower cost of risk capital and insurance coverage and increase insurance penetration



"By the year 2020, Swiss Re commits to having **advised 50 sovereigns and sub-sovereigns on climate risk resilience, and to have offered them protection of USD 10 billion** against this risk."

– Michel Liès, Group CEO, Swiss Re

2014 UN Climate Summit, UN Headquarters, New York

# Approaches to investment


# Approaches to investment

## AXA

**Henri de Castries at the Climate Finance Day | May 22<sup>nd</sup> 2015**

*"As our business is about understanding risks and managing them for our clients, insurers are uniquely positioned to provide innovative solutions in partnership with public authorities but also relevant private players."*


### COAL DIVESTMENT




AXA has decided to divest from the companies most exposed to coal-related activities.

This initiative represents a divestment of **€ 0.5 billion**


### "GREEN" INVESTMENTS



AXA commits to its green investments **X3** aiming to reach over **€ 3 billion** by 2020



### ESG\* INTEGRATION AND SIGNING THE "MONTREAL CARBON PLEDGE"




AXA has committed to measuring the ESG\* footprint of all relevant asset classes of its general account investments by the end of 2015.

And we are the first global insurer to sign the Montreal pledge, an initiative to disclose the carbon footprint of our investments, launched under the auspices of the UN Principles for Responsible Investment.

\* environmental, social and governance

### AFRICAN RISK CAPACITY

AXA has joined in May 2015 the African Risk Capacity initiative.



**A regional insurance pooling mechanism** that helps mitigate the short-term cash flow problems that cripple developing countries after natural disasters.

## Allianz

- **Coal divestment of about EUR 4 billion:** Mining companies that derive more than 30% of revenues from coal mining, or electric utilities that derive more than 30% of generated electricity from thermal coal
- **Doubling wind energy investments to EUR 4 billion**



- **Allianz and Storebrand join Portfolio Decarbonization Coalition of investors now overseeing decarbonization of USD 600 billion in assets under management**

# Help achieve the 2030 UN Sustainable Development Goals through “Insurance Development Goals”

**The  
Economist**

## Insurance Summit 2016: Guardians of the Future (Feb 2016, London)

“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.”

- Where should the UN focus these goals?
- How do the UN and multilateral organisations hope to involve the insurance sector in achieving them?
- What should the priorities for the industry be?
- What is the timeline for action?”

- The Economist’s Insurance Summit 2016



## SUSTAINABLE DEVELOPMENT GOALS







“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



**PSI**

Principles for Sustainable Insurance

**Insuring for sustainable development**

**[www.unepfi.org/psi](http://www.unepfi.org/psi)**