



March 2016

Input for the 2016 Forum of the UNFCCC Standing Committee on Finance:

Financial instruments that address the risks of loss and damage associated with the adverse effects of climate change

1. Scope of the Forum

The scope of the Forum should include the following aspects:

1.1 The disaster risk management continuum

The Forum should adopt an integrated view of disaster risk management—particularly with respect to climate risks—while focusing on the purpose and need for financial instruments.

The continuum of activity in disaster risk management spans understanding, assessing, preventing and reducing disaster risk—to disaster response and relief, disaster recovery, and disaster risk financing.

The disaster risk management continuum



Source: UNEP FI Principles for Sustainable Insurance

By recognising the disaster risk management continuum, the Forum will be able to maximise opportunities to harness the full potential of relevant financial instruments, particularly insurance solutions.



1.2 The insurance risk management continuum

Aside from the disaster risk management continuum, the Forum should recognise the insurance risk management continuum.

The risk management process in insurance spans a continuum of activity—from identifying, assessing, prevent and reducing risk—to pricing, carrying and diversifying risk. When unexpected losses arise, insurance helps communities cope with the financial hardship associated with these losses and help clients recover.

The insurance risk management continuum



Source: UNEP FI Principles for Sustainable Insurance

The risk management process in insurance mirrors the continuum of activity in disaster risk management. For this reason, the insurance industry is actively involved in managing disaster risk, whether it stems from natural hazards (e.g. cyclones, earthquakes, floods, droughts), biological hazards (e.g. epidemics, animal and insect infestation), or technical hazards (e.g. industrial pollution, factory explosions, transport accidents). This includes disaster risk from a combination of hazards (e.g. natural and technological hazards).

1.3 The triple role of the insurance industry in sustainable development

The insurance industry is a USD 5 trillion market in terms of world premium volume, represents more than 6% of global GDP, and has 31 trillion in global assets under management.

Insurance—as a financial risk transfer instrument—is only one of several key roles of the insurance industry. To harness the full potential of the insurance industry in climate and disaster risk management, the Forum should recognise the industry’s triple role in promoting sustainable development as risk managers, risk carriers and institutional investors.

- As **risk managers**, insurers help communities understand, prevent and reduce risk through research and analytics, catastrophe risk models, and loss prevention. Insurers also advocate proper land-use planning, zoning and building codes, and promote disaster preparedness.



- As **risk carriers**, insurers protect households and businesses by absorbing financial shocks due to cyclones, floods, droughts and earthquakes. They are now also helping the transition to a low-carbon and resource-efficient economy through green insurance solutions such as insurance for renewable energy, green buildings and energy efficiency, and usage-based insurance (e.g. pay-as-you-drive insurance). Furthermore, insurance pricing provides risk signals and rewards risk reduction efforts.
- Finally, insurers are **major institutional investors**. Insurance for and investments in renewable energy, green buildings, low-carbon transportation, sustainable agriculture and climate-resilient infrastructure promote sustainable development.

1.4 The insurance protection gap and the disaster risk reduction gap

The Forum should recognise both the insurance protection gap and the disaster risk reduction gap—and their links.

In the past decade, average economic losses from disasters were about USD 190 billion per year, while average insured losses were about USD 60 billion per year. This century, more than one million people have already lost their lives to disasters. Closing the insurance protection gap (i.e. the financial gap between economic losses and insured losses) around the world is a key priority. In 2014, the overall insurance protection gap amounted to USD 75 billion. In the poorest 100 countries, less than 3% of the population is served by effective insurance protection against natural hazards.

Access to affordable insurance is a key priority, particularly in developing countries. Closing the insurance protection gap at the individual, local and national levels is a huge challenge and opportunity. Examples of solutions include microinsurance for low-income communities, and national and regional catastrophe insurance programmes such as the African Risk Capacity and the CCRIF SPC (formerly the Caribbean Catastrophe Risk Insurance Facility). A largely untapped opportunity is to design risk reduction, adaptation and insurance solutions for local governments (e.g. cities and municipalities) and small-to-medium-sized enterprises, as well as green insurance solutions for technologies that enable the transition to a resource-efficient and low-carbon economy.

But aside from the insurance protection gap, there is a significant disaster risk reduction gap. In other words, there is insufficient understanding and action to prevent and reduce disaster risk. Furthermore, disaster risk reduction initiatives are usually not designed to link risk transfer solutions such as insurance, and vice-versa. This is a missed opportunity to adopt integrated disaster risk management. Understanding the links between disaster risk reduction and insurance solutions is crucial to achieving greater climate and disaster resilience. Increasing climate and disaster risk will increase the cost of insurance and can ultimately make insurance unaffordable. This could lead to government becoming the insurer of last resort. Conversely, by reducing disaster risk, insurance solutions become more viable, affordable, accessible and scalable. Closing both the disaster risk reduction gap and the insurance protection gap is imperative to protecting hard-won development gains and to shaping resilient and sustainable development pathways.



2. Purpose of the Forum

The Forum should provide a global, multi-stakeholder platform to:

- 2.1 Understand and clarify loss and damage due to the adverse effects of climate change, including in the context of rapid or sudden-onset events, slow-onset events, and non-economic losses; the frequency, severity and scale of climate change impacts; and adaptation
- 2.2 Understand risk identification, analysis and modelling techniques and how these can be applied in loss and damage scenarios (including the availability, reliability and accessibility of weather, vulnerability, exposure, asset and geographic data) in order to improve physical risk management and financial risk management
- 2.3 Understand the links between physical risk management (e.g. land-use planning and management, zoning and building codes, infrastructure resilience, ecosystem-based adaptation and disaster risk reduction, disaster preparedness) and financial risk management (e.g. climate insurance, funds, bonds)
- 2.4 Understand and take stock of types of relevant financial instruments across local, national and international levels; micro, meso and macro levels; countries and regions; and the public and private sectors
- 2.5 Understand the benefits and limits of financial instruments, including insurance solutions, across types and aspects of loss and damage, and across levels, geographies and sectors
- 2.6 Understand key principles and elements of insurability
- 2.7 Discuss how proven financial instruments for loss and damage are structured and operate, how they can be more effective and be brought to scale, their limits and challenges, knowledge gaps, good practices, and lessons learned
- 2.8 Explore potential financial instruments and innovations needed to more fully and more effectively address loss and damage
- 2.9 Understand financial risk management needs at the local, national and international levels
- 2.10 Understand the respective roles of local governments, national governments, and the international climate change regime (i.e. the UNFCCC) in addressing loss and damage
- 2.11 Explore partnerships, particularly public-private, that build climate and disaster resilience
- 2.12 Convene relevant stakeholders to help build a global network for climate resilience, particularly in the context of developing countries and vulnerable populations. This network should include representatives from the UNFCCC community, national and local governments, key UN agencies and other multilateral organisations, ministries of finance, the insurance industry (insurance companies, associations, regulators and relevant insurance schemes and facilities), climate service providers, NGOs, think tanks, and academia
- 2.13 Explore ways to establish systematic and long-term dialogue and collaboration with key actors, including and particularly the global insurance industry
- 2.14 Explore how the Standing Committee on Finance (SCF) will work together with the Executive Committee of the Warsaw International Mechanism for Loss and Damage (Excom) going forward in order to maximise synergies. For example, such synergies could include areas such as the establishment of “a clearinghouse for risk transfer that serves as a repository for information on insurance and risk transfer, in order to facilitate the efforts of Parties to develop and implement comprehensive risk management strategies” (per the Paris Agreement) and key actions needed from both the SCF and the Excom



3. Case studies and info on disaster risk reduction, climate and disaster risk transfer solutions, and the role of the insurance industry in sustainable development

- 3.1 [PSI Global Resilience Project \(Phase 3\): Collaborating for resilience – Partnerships that build disaster-resilient communities and economies](#) (see [press release here](#)) (UNEP FI-PSI & IAG, 2015)
- 3.2 [PSI Global Resilience Project \(Phase 2\) \(2015\): Global Risk Map](#) (see [press release here](#)) (UNEP FI-PSI & IAG, 2015)
- 3.3 [PSI Global Resilience Project \(Phase 1\) \(2014\): Building disaster-resilient communities and economies](#) (see [press release here](#)) (UNEP FI-PSI & IAG, 2014)
- 3.4 [AXA-PSI global survey report: Business unusual – Why the climate is changing the rules for our cities and SMEs \(2015\)](#) (see [press release here](#)) (UNEP FI-PSI and AXA, 2015)
- 3.5 [Insurance 2030: Harnessing insurance for sustainable development](#) (see [press release here](#)) (UNEP FI-PSI and UNEP Inquiry, 2015)
- 3.6 [PSI United for Disaster Resilience Statement: The insurance industry’s statement in support of disaster risk reduction](#) (see [press release here](#)) (UNEP FI-PSI, 2015)
- 3.7 [UN Secretary-General’s Climate Resilience Initiative: “A2R: Anticipate, Absorb, Reshape”](#) (UN, 2015)
- 3.8 [Harnessing the full potential of the insurance industry in disaster risk management: An insurance industry commitment in support of the process to develop the Post-2015 Framework for Disaster Risk Reduction](#) (UNEP FI-PSI, 2014)
- 3.9 [Insuring climate resilience: How insurers are responding to climate change, and how they can be part of an effective government response. Insights from a UNEP FI global survey of the insurance industry](#) (UNEP FI, 2013)
- 3.10 [2013 Global Insurance Industry Statement: Building climate and disaster-resilient communities and economies Building climate and disaster-resilient – How the insurance industry and governments can work together more effectively](#) (UNEP FI, ClimateWise & MCII, 2013)
- 3.11 [The Principles for Sustainable Insurance: A global sustainability framework and initiative of the United Nations Environment Programme Finance Initiative](#) (UNEP FI-PSI, 2012) (see [press release here](#))
- 3.12 [Insurance in a changing risk landscape: Local lessons from the Southern Cape of South Africa](#) (UNEP FI, Santam, CSIR, UCT & WWF, 2012)
- 3.13 [The UNFCCC work programme on loss and damage: Input from UNEP](#) (UNEP, 2011)
- 3.14 [2010 Global Insurance Industry Statement: Adapting to climate change in developing countries](#) (UNEP FI, ClimateWise, MCII & The Geneva Association, 2010)



4. Potential institutions and events to partner with in organising the Forum

4.1 The UNEP FI Principles for Sustainable Insurance (PSI) Initiative

The PSI Initiative would be interested to partner with the SCF. As the largest collaborative initiative between the UN and the insurance industry, the PSI is uniquely positioned to support the SCF in organising the Forum.

Due to the specific nature of the 2016 Forum and the peculiarities of the UNFCCC, designing a standalone and tailored Forum could be more effective than piggybacking on events.

However, if positioned well, the Forum could benefit considerably from synergies if it is held during Climate Week in New York from 19-25 September 2016, or held in conjunction with key events happening that week (including the UN General Assembly and UN Private Sector Forum). Another option is to hold the Forum in conjunction with the 4th Meeting of the Executive Committee of the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts, taking place from 19-23 September 2016.

As mentioned above, the Forum should convene relevant stakeholders to help build a global network for climate resilience. This network should include representatives from the UNFCCC community, national and local governments, key UN agencies and other multilateral organisations, ministries of finance, the insurance industry (insurance companies, associations, regulators and relevant insurance schemes and facilities), climate service providers, NGOs, think tanks, and academia.

4.2 Systematic and long-term dialogue and collaboration between the UNFCCC community and the global insurance industry

The nature, scale and timeframe of loss and damage associated with the adverse effects of climate change require systematic and long-term dialogue and collaboration between the UNFCCC community and the global insurance industry.

Therefore, the 2016 SCF Forum, with the support of the PSI Initiative, could help pave the way for such a dialogue and collaboration.

The PSI Initiative represents a United Nations-backed global network of insurers proactively addressing a wide range of environmental, social and governance risks and opportunities. It can serve as an effective and efficient global platform for the insurance industry to support the UNFCCC process on loss and damage, particularly in the context of risk research, risk analysis and modelling, risk reduction, and risk transfer. Equally, the PSI Initiative can catalyse enhanced collaboration and coordinated action between various insurance and finance-related initiatives in support of a common climate imperative.



4.3 About the PSI Initiative

Endorsed by the UN Secretary-General and insurance CEOs worldwide, the Principles for Sustainable Insurance (PSI) were launched at the 2012 UN Conference on Sustainable Development (Rio+20). Developed by the UN Environment Programme's Finance Initiative (UNEP FI), the Principles provide a global framework for the insurance industry to address environmental, social and governance (ESG) risks and opportunities, and a common aspiration for the industry to strengthen its contribution to building a resilient, inclusive and sustainable society.

Many insurers are showing leadership and innovation in implementing the Principles. For example, insurers have developed sustainability risk frameworks and underwriting tools to better manage environmental, social and governance risks and opportunities in insurance and investment operations. Insurers are developing climate and disaster risk reduction and insurance solutions at the individual, local and national and international levels. Furthermore, some insurers have committed to divest from coal-related activities, and others have committed to increase their green or sustainable investment portfolios.

Beyond being a global framework being implemented by insurers, the Principles have led to the largest collaborative initiative between the UN and the insurance industry—the PSI Initiative. Today, nearly 100 organisations worldwide have adopted the Principles, including insurers representing more than 20% of world premium and USD 14 trillion in assets under management.

As a global initiative, the PSI has become a strong platform for thought leadership and collaboration. For example, the PSI Global Resilience Project led by IAG was a multi-year collaborative initiative to help communities and governments develop effective approaches to reduce disaster risk and to drive greater investment in disaster risk reduction. AXA and the PSI have produced the first global study of how cities and SMEs are building climate resilience, based on a survey of more than 40 city leaders and 1,100 SMEs. Meanwhile, Munich Re and the International Finance Corporation are leading a global project to develop sustainability principles for underwriting surety bonds and infrastructure projects.

In Brazil, the Brazilian Insurance Confederation (CNseg) and Brazilian insurers have produced sustainability goals for their entire insurance market based on the four Principles for Sustainable Insurance. In Africa, starting in 2016, Santam, the PSI Initiative, ICLEI—the global cities network, ClimateWise and partners are creating “City Innovation Platforms” for African infrastructure resilience, with Dar es Salaam as the pilot city. In China, with the PSI Secretariat as the insurance lead, the PSI Initiative contributed to ground-breaking policy initiatives to green China's financial system led by the Chinese government, the UNEP Inquiry, and International Institute for Sustainable Development.

In 2015, the PSI Initiative contributed to major UN global policy frameworks for sustainable development that were agreed—namely, the Sendai Framework for Disaster Risk Reduction, the UN Sustainable Development Goals, and the Paris Agreement on Climate Change—as well as key



initiatives such as the UN Secretary-General's Climate Resilience Initiative (A2R) and the Paris Pledge for Action.

The next wave of PSI innovation is already emerging. These include:

- Establishing (together with the UNEP Inquiry in to the Design of a Sustainable Financial System) a Sustainable Insurance Policy Forum (SIPF) for insurance regulators and supervisors worldwide
- Developing and promoting disaster risk reduction and risk transfer solutions for countries, cities and SMEs to build climate and disaster resilience, and promoting green insurance solutions that enable the transition to a low-carbon and resource-efficient economy
- Developing sustainability principles and criteria across lines of insurance business
- Integrating natural ecosystems, climate change and socio-economic vulnerability factors into catastrophe risk analysis and models
- Developing a set of Insurance Development Goals (IDGs) for the global insurance industry that would support the achievement of the 2030 UN Sustainable Development Goals (SDGs)

In just over three years, the PSI Initiative has shown how the UN and insurers from around the world can work together in building a risk-aware, resilient and sustainable society.

To learn more about the PSI Initiative, please visit: www.unepfi.org/psi

4.4 List of PSI signatory companies and supporting institutions (as of end-February 2016)

PSI signatory companies (domicile)

1. Achmea (Netherlands)
2. AEGON (Netherlands)
3. African Risk Capacity (African Union)
4. Allianz (Germany)
5. AmGeneral Insurance (Malaysia)
6. ASR Nederland (Netherlands)
7. Atlanticlux (Luxembourg)
8. Aviva (United Kingdom)
9. AXA (France)
10. Bradesco Seguros (Brazil)
11. Brasilcap (Brazil)
12. Caixa Seguradora (Brazil)
13. Continental Re (Nigeria)
14. Custodian & Allied (Nigeria)
15. Delta Lloyd (Netherlands)
16. FATUM Schadeverzekering (Suriname)



17. Generali Group (Italy)
18. Grupo Segurador Banco do Brasil e MAPFRE (Brazil)
19. HSBC Insurance (United Kingdom)
20. Insurance Australia Group (Australia)
21. Interamerican Hellenic Insurance Group (Greece)
22. Itau Seguros (Brazil)
23. La Banque Postale (France)
24. Liberty Seguros (Brazil)
25. MAPFRE (Spain)
26. Mitsui Sumitomo Insurance (Japan)
27. Mongeral AEGON (Brazil)
28. Munich Re (Germany)
29. National Reinsurance Corporation of the Philippines (Philippines)
30. NN Group (Netherlands)
31. Peak Re (China)
32. Porto Seguro (Brazil)
33. QBE Insurance Group (Australia)
34. Risk Management Solutions (United States)
35. RSA Insurance Group (United Kingdom)
36. Samsung Fire & Marine Insurance (Republic of Korea)
37. Sanlam (South Africa)
38. Santam (South Africa)
39. SCOR (France)
40. Seguradora Lider (Brazil)
41. Sompo Japan Nipponkoa Insurance (Japan)
42. Storebrand (Norway)
43. SulAmerica (Brazil)
44. Suramericana (Colombia)
45. Swiss Re (Switzerland)
46. TAL (Australia)
47. TD Insurance (Canada)
48. Terra Brasis Resseguros (Brazil)
49. The Co-operators Group (Canada)
50. Tokio Marine & Nichido Fire Insurance (Japan)
51. Zwitserleven (Netherlands)

PSI supporting institutions (country of domicile)

1. Association of Insurers & Reinsurers of Developing Countries (Philippines)
2. Brazilian Insurance Confederation (CNseg) (Brazil)
3. Cadre d'Actions et de Recherche pour la Démocratisation de l'Assurance (Association CAREDAS) (Senegal)
4. California Department of Insurance (United States)
5. Ceres (United States)
6. Climate Bonds Initiative (United Kingdom)
7. ClimateWise (United Kingdom)
8. Dutch Association of Insurers (Netherlands)
9. Earth Security Group (United Kingdom)
10. Environment & Security Initiative (Switzerland)



11. Federation of Colombian Insurers (Fasecolda) (Colombia)
 12. Finance Norway (Norway)
 13. Financial Services Council of New Zealand (New Zealand)
 14. Global Organizational Learning & Development Network for Sustainability (Belgium)
 15. Insurance Association of the Caribbean (Barbados)
 16. Insurance Commission of the Philippines (Philippines)
 17. Insurance Council of Australia (Australia)
 18. Insurance Council of New Zealand (New Zealand)
 19. Insurance Institute for Asia & the Pacific (Philippines)
 20. Insurance Institute of India (India)
 21. Interamerican Federation of Insurance Companies (FIDES) (Peru)
 22. International Actuarial Association (Canada)
 23. International Cooperative & Mutual Insurance Federation (United Kingdom)
 24. International Finance Corporation (United States)
 25. International Institute for Sustainable Development (Canada)
 26. International Insurance Society (United States)
 27. Italian Banking, Insurance & Finance Federation (FEBAF) (Italy)
 28. Italian Forum for Sustainable Finance (FFS) (Italy)
 29. Mexican Association of Insurance Institutions (AMIS) (Mexico)
 30. Multilateral Investment Guarantee Agency (United States)
 31. National Committee on International Cooperation & Sustainable Development (Netherlands)
 32. Philippine Insurers & Reinsurers Association (Philippines)
 33. Philippine Life Insurance Association (Philippines)
 34. South African Insurance Association (South Africa)
 35. Temple University Fox School of Business (United States)
 36. The Nature Conservancy (United States)
 37. University of Cape Town, Centre of Criminology (South Africa)
 38. University of Technology, Sydney (UTS) Business School (Australia)
 39. University of Westminster (United Kingdom)
 40. Washington State Office of the Insurance Commissioner (United States)
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