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

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Programme Leader
UNEP FI Principles for Sustainable Insurance Initiative
The triple role of the insurance industry in sustainable development

Risk carrier role
(financial risk management)

Risk manager role
(physical risk management)

Sustainable development challenges & opportunities

Investor role
(asset management)

Over USD 5 trillion world premium volume

Over USD 30 trillion global assets under management
Global studies by the UN and the insurance industry on environmental, social and governance (ESG) risks and opportunities relevant to insurance

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
A global risk sharing system

How risks are spread in the insurance industry
Approaches to understanding risk
Probabilistic modelling allows estimation of average expected losses at any given location

Source: Swiss Re
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**, 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

- 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

Disaster risk reduction measures
- Behavioural
- Structural
- Ecosystems

Risk transfer solutions
- National & regional risk transfer solutions
- Risk transfer solutions at the local government level: A largely untapped opportunity

Insurance protection gap

Macro level
- National governments/sovereigns

Meso level
- Local governments, cities, municipalities

Micro level
- Individuals, households, companies

Commercial lines/Corporate insurance
- Personal lines insurance
- Microinsurance

Disaster risk reduction gap
Approaches to transferring risk
Global Parametrics

- 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 by 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 22nd 2015

“Is 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 has committed to its green investments aiming to reach over €3 billion by 2020.

**ESG* Integration and Signing the “Montreal Carbon Pledge”**

AXA has joined in May 2015 the Montreal Carbon Pledge Initiative.

**African Risk Capacity**

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

**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”

**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
“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
Insuring for sustainable development

www.unepfi.org/psi