



## UNEP Finance Initiatives

Innovative financing for sustainability

### Forging Innovative Public-Private Insurance Mechanisms to Address Climate-related Losses – What is Needed?

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#### Presentation will cover:

- ❖ Background to UNEP Finance Initiatives (FI)
- ❖ UNEP FI activities in the climate change field
- ❖ Forging innovative insurance mechanisms
  - Trends and market drivers
  - Positioning of insurance sector
  - Knowledge gaps



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#### UNEP Finance Initiatives:

A public-private partnership – based on a voluntary approach - initiated in 1992

- 300 institutions worldwide covering banking, insurance and asset management sectors
- Member institutions sign statements of commitment to environment and sustainability
- UNEP FI identifies and disseminates best practice
- Facilitate finance sector's involvement in policy arena



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#### UNEP FI Activities:

- Asset Management
- Climate Change
- SEMRI
- Financial Systems / Global Compact

#### Regional Task Forces:

- Africa
- Asia-Pacific
- North America
- Latin America



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### UNEP FI Activities in Climate Change:

- Climate Change Working Group (CCWG) Chaired by Munich Re
- Working group present in Kyoto, Marrakech, New Delhi and Bonn preparatory sessions
- Landmark study published for COP 8, New Delhi (2002). Implementing recommendations of study in 2003-2004.
- Asset Management Working Group (AMWG) – financial materiality



“Climate change poses a major risk to the global economy.

The increasing frequency of severe climatic events, coupled with social trends, has the potential to stress insurers, re-insurers and banks to the point of impaired viability or even insolvency.

Worldwide economic losses due to natural disasters appear to be doubling every ten years and, on current trends, annual losses will reach almost USD 150 billion in the next decade”

*UNEP FI study on financial services and climate change, published October 2002*



### Forging Innovative Insurance Mechanisms - Trends:

Insurance sector now aware of emerging pressures in the market:

- CDP (Carbon Disclosure Project) representing USD 4.7 trillion
- IIGCC (Institutional Investors Group on Climate Change)
- Exposure - Carbon Liability  
*Swiss Re D&O insurance: “Satisfactory answers on CC”*



### What's Next?

- Tobacco
- Guns
- Asbestos
- Fast Food?
- Carbon?



### **Forging Innovative Insurance Mechanisms - Positioning:**

- Insurance positioning to respond to potential offered by market mechanisms in Kyoto Protocol
- Tentative investment to develop new products and services but market development slow.



### **Re-insurance responding first to shifts in underlying weather patterns - WHY?**

- Greater uncertainty
- Higher loss potentials
- Clients need adequate cover but insurers cannot face ruin.
- Insurers less open to pre-emptive underwriting as they base contracts on historical data.



### **The insurance industry will....**

"Need to develop a new approach that will deal with the greater uncertainty and higher loss potentials...."

Almost certainly, this will require close cooperation between insurers and governments or international funding agencies"

**Finance and Insurance sector report to WSSD, August 2002**



## **KNOWLEDGE GAPS?**

