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
Why the insurance industry?
A global risk sharing system
2011 world premium volume of over $4.5 trillion
Why the insurance industry?
Major institutional investors
2010 global assets under management of over $24 trillion

Global fund management industry in 2010

- Pension funds: 29.9 trillion USD
- Mutual funds: 24.7 trillion USD
- Insurance funds: 24.6 trillion USD
- Sovereign wealth funds: 4.2 trillion USD
- Private equity: 2.6 trillion USD
- Hedge funds: 1.8 trillion USD
- Exchange traded funds: 1.3 trillion USD
- Private wealth*: 42.7 trillion USD

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

Source: TheCityUK estimates
Why the insurance industry?
Uniquely positioned to tackle environmental, social and governance 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
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 standards, environmental regulations)
- Disclosure, transparency and accountability
- Business principles and ethics
- Alignment of interests
UN goals

■ UN Millennium Development Goals
■ ILO’s Declaration of Fundamental Principles and Rights at Work
■ Rio Declaration on Environment and Development
■ Rio+20 goals: “The future we want”
■ 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 (2006-07)

- Agenda-setting report identifying ESG issues relevant to the insurance industry
- Case studies on insurance strategies, products and services addressing ESG issues
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
What is sustainable insurance?

- Not about philanthropy
- Recognises fundamental economic value of natural capital, social capital and good governance

**Strategic approach**

- All activities in the insurance value chain, including interactions with stakeholders, are done in a responsible and forward-looking way
- Identify, assess, manage and monitor risks and opportunities in the insurance business associated with environmental, social and governance 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 better understand and manage risks and opportunities in the insurance business associated with environmental, social and governance issues.

- Establish a United Nations-backed insurance industry initiative to promote the global adoption and implementation of the Principles.
The 2011 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, academia, NGOs 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
Scope of the Principles

- 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)

- All regions
  - Africa, Asia, Europe, Latin America & the Caribbean, Middle East & North Africa, North America, Oceania
Structure of the Principles
Aligned with an insurer’s spheres of influence
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 of environmental, social and governance issues, reduce risk and develop solutions.

3 We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.

4 We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.
Hallmarks of the PSI

Principles Sustainable Insurance

- Resiliency
- Inclusiveness
- Innovation
- Transparency
- Accountability
- Responsibility
- Sustainability
- Risk management
- Stakeholder dialogue
PSI support from the highest levels of the United Nations

“The United Nations looks forward to working with all sectors of society towards the global embrace of this important new initiative as we shape the future we want.”

Ban Ki-moon
UN Secretary-General
PSI support from the highest levels of the United Nations

“The Principles for Sustainable Insurance are a foundation upon which the insurance industry and society as a whole can build a stronger relationship—one that puts sustainability at the heart of risk management in pursuit of a more forward-looking and better managed world.”

Achim Steiner
UN Under-Secretary-General & UNEP Executive Director
Global launch of the Principles

The insurance industry and sustainable development

19 June 2012, Rio de Janeiro, Brazil
Founding PSI signatory companies

- Represent about USD 500 billion in gross premiums written or over 10% of world premium volume
- Have combined total assets of over USD 5 trillion

1. Achmea (Netherlands)
2. AEGON (Netherlands)
3. Aviva (UK)
4. AXA (France)
5. Bradesco Seguros (Brazil)
6. Delta Lloyd (Netherlands)
7. ING (Netherlands)
8. Insurance Australia Group (Australia)
9. Interamerican Hellenic Insurance Group (Greece)
10. Itau Seguros (Brazil)
11. La Banque Postale (France)
12. MAPFRE (Spain)
13. Mitsui Sumitomo Insurance (Japan)
14. Mongeral AEGON (Brazil)
15. Munich Re (Germany)
16. RSA Insurance Group (UK)
17. Sanlam (South Africa)
18. Santam (South Africa)
19. SCOR (France)
20. Sompo Japan Insurance (Japan)
21. Sovereign (New Zealand)
22. Storebrand (Norway)
23. SulAmerica (Brazil)
24. Swiss Re (Switzerland)
25. The Co-operators Group (Canada)
26. Tokio Marine & Nichido Fire Insurance (Japan)
27. Zwitserleven (Netherlands)
Founding PSI supporting institutions

1. Brazilian Insurance Confederation (Brazil)
2. Insurance Association of the Caribbean (Barbados)
3. Insurance Council of Australia (Australia)
4. Insurance Council of New Zealand (New Zealand)
5. International Cooperative & Mutual Insurance Federation (UK)
6. International Insurance Society (US)
7. South African Insurance Association (South Africa)
Turning the PSI into practice

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

Mainstream sustainable insurance

Help build a resilient, inclusive and sustainable society

ESG research, training and other implementation support services across insurance lines and geographies

Hub for dialogue with UN system (UNEP, UNFCCC, UN REDD, UN Global Compact, UNISDR, WHO, WMO)

Hub for dialogue with governments, regulators and other key stakeholders

Insurance industry signatories across all regions

Hub for dialogue with country, regional and academic networks
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
Over 1000 signatories from 50 countries
Over $30 trillion in assets under management

Growth in PRI signatories & AUM

AUM
PRI signatories
Examples of insurance or insurance-related PRI signatory institutions

- Achmea
- AEGON Asset Management
- Allianz
- Allianz Global Investors
- Aviva Investors
- AXA Investment Managers
- AXA Private Equity
- Bradesco Asset Management
- Crédit Agricole Assurances
- Folksam
- HSBC Global Asset Management
- La Banque Postale Asset Management
- ING Investment Management
- Insurance Australia Group
- Itaú Asset Management
- Munich Re
- Prudential Portfolio Managers
- Sanlam Investment Management
- Sompo Japan Insurance
- Sompo Japan Nipponkoa Asset Management
- Sovereign Assurance
- Storebrand
- Sul América Investimentos
- Swiss Re
- Syntrus Achmea
- Teachers Insurance and Annuity Association – College Retirement Equities Fund
- Taiyo Life Insurance
- Tapiola Mutual Pension Insurance
- TrygVesta
- Tokio Marine Asset Management
- Zurich Insurance Group
The United States: Over 150 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

Core business strategies and operations

Principles for Sustainable Insurance

Principles for Responsible Investment

Liability side

Asset side

Total balance sheet approach
Putting the PSI in perspective
The missing link

ESG issues across industry sectors

ESG issues across the financial sector

UN Global Compact Principles (2000)


UNEP FI Principles for Sustainable Insurance (2012)

UNEP FI & UN Global Compact Principles for Responsible Investment (2006)
ARIA and the PSI: Initial thoughts

- How can insurers deliver value to clients even if there are no claims?
- How can insurers maximise their role as risk managers to better understand and reduce risk and make insurance more accessible and affordable?
- How can insurers contribute to a sustainable economy in their role as institutional investors?
- How can insurers help determine the key sustainability risks and opportunities for this region and the appropriate responses?
- How can insurers work together with governments, regulators and other stakeholders to build resilient communities?
- How can ARIA promote the adoption and implementation of the Principles for Sustainable Insurance in this region?
- How can the PSI Initiative support ARIA in its efforts to promote sustainable insurance?
US insurance regulation and the PSI: Initial thoughts

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?

  - 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

  - 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

  - 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
International insurance regulation and the PSI: Initial thoughts

■ What are the links between the PSI and the Insurance Core Principles (ICP) of the International Association of Insurance Supervisors (IAIS)?
  o ICP 7 → Corporate governance
  o ICP 8 → Risk management and internal controls
  o ICP 15 → Investment
  o ICP 16 → Enterprise risk management for solvency purposes
  o ICP 19 → Conduct of business
  o 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?
www.unepfi.org/psi