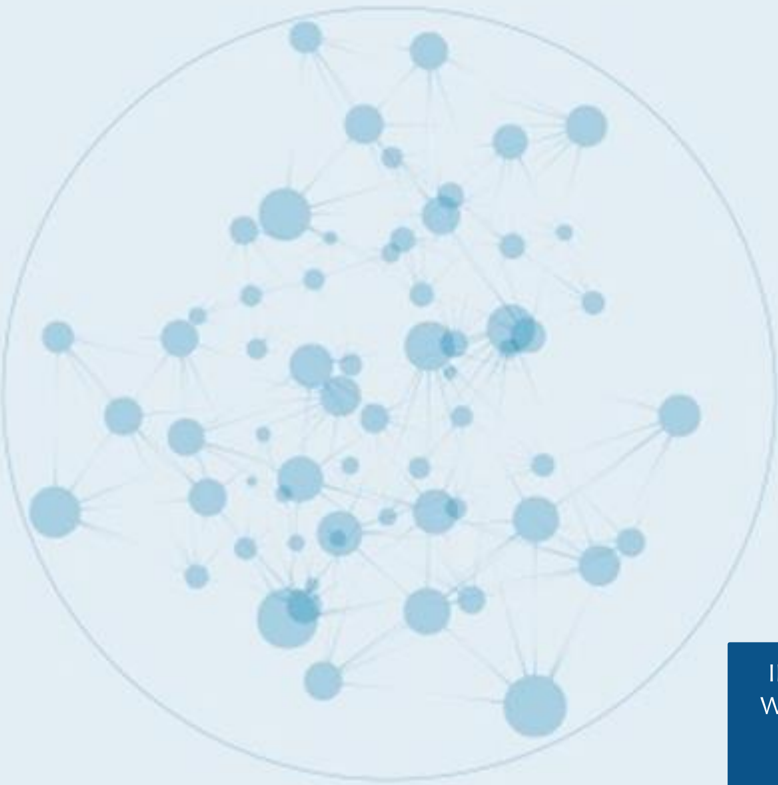
**Inquiry**: Design of a Sustainable Financial System

PSI
Principles for Sustainable Insurance

UNEP

# INSURANCE 2030

## Harnessing Insurance for Sustainable Development



INQUIRY WORKING PAPER

15/01

June 2015

**The UNEP Inquiry**

The Inquiry into the Design of a Sustainable Financial System has been initiated by the United Nations Environment Programme to advance policy options to improve the financial system's effectiveness in mobilizing capital towards a green and inclusive economy—in other words, sustainable development. Established in January 2014, it will publish its final report in October 2015.

More information on the Inquiry is at: *www.unep.org/inquiry* or from: Ms. Mahenau Agha, Director of Outreach *mahenau.agha@unep.org*.

**The UNEP FI Principles for Sustainable Insurance Initiative**

The UNEP FI Principles for Sustainable Insurance serve as a global framework for the insurance industry to address environmental, social and governance risks and opportunities. As of May 2015, more than 80 organisations have adopted the Principles, including insurers representing approximately 15% of world premium volume and US$9 trillion in assets under management. The vision of the PSI Initiative is of a risk aware world, where the insurance industry is trusted and plays its full role in enabling a healthy, safe, resilient and sustainable society.

More information on the PSI is at: *www.unepfi.org/psi* or from: *butch.bacani@unep.org* and *diana.almoro@unep.org*.

**About this report**

This report presents a suite of options that could strengthen the alignment between the insurance industry and sustainable development through to 2030. It represents the culmination of a significant process of engagement between the UNEP Inquiry and PSI and insurance industry stakeholders around the world, including:

- A global consultation gathering submissions from more than 30 respondents from insurance companies, regulators and stakeholders in over 20 countries, bolstered by engagements held in Africa, Asia, Europe and North America.
- The Insurance 2030 Roundtable, hosted by Swiss Re on 11-12 May 2015 in Ruschlikon, Switzerland, which brought together over 70 participants representing leading global insurers and regulators from around the globe. The UNEP Inquiry and the PSI would like to express their thanks for the support of Swiss Re for their support and collaboration in delivering this event.

***Comments are welcome and should be sent to*** *butch.bacani@unep.org* ***and*** *nick.robins@unep.org*.

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**Acknowledgements**

The UNEP Inquiry and the PSI would like to thank the many individuals and institutions who contributed their insights to the preparation of this report. We would particularly like to acknowledge Swiss Re for hosting the Insurance 2030 Roundtable in Rüschlikon, as well as Aviva for hosting the launch of the PSI-Inquiry consultation process in London, and the consultation meetings hosted by Munich Re in Beijing, the United Nations in Geneva, Santam in Cape Town, Sanlam in Johannesburg, and Manulife and The Co-operators Group in Toronto. We would also like to thank institutions that supported relevant meetings: Lloyd's in London, SulAmérica and the Brazilian Insurance Confederation (CNseg) in Rio de Janeiro, the Insurance Institute of India in Mumbai, the California Department of Insurance in Sacramento, the Connecticut Insurance Department in Hartford, the New York State Department of Financial Services in New York City, and the and the Philippine Department of Finance and Philippine Insurance Commission in Manila. Finally, we would like to acknowledge the more than 30 institutions that contributed written submissions as part of the global consultation.

## Contents

## Highlights

In its role as risk manager, risk carrier and investor, insurance is at the heart of a sustainable financial system. Initiatives to harness insurance for sustainable development are picking up momentum – and 2015 represents a critical opportunity to think ahead about the priorities for scaling up action. International milestones on disaster risk reduction, finance for development, new sustainable development goals and a new climate change agreement provide the context for strategic reflection on the policies and partnerships necessary to realize the full potential of insurance.

This report presents a suite of options that could strengthen the alignment between the insurance industry and sustainable development through to 2030. Insurance firms and regulators have identified a set of interlocking priorities for insurance looking forward to 2030, such as natural disasters, access to insurance, climate change, socio-economic disruptions and long-term investment.

Across the world, we have identified a growing range of innovations by insurance companies, multi-stakeholder initiatives and policymakers that better harness insurance for sustainable development, across the dimensions of risk, access and investment.

**Key actions to harness insurance for sustainable development**

| | Cross-cutting | Risk | Access | Investment |
|---|---|---|---|---|
| **Corporate Actions** | Principles-driven commitments<br>(Brazil's CNSeg)<br><br>Sustainability Risk Management Frameworks<br>(Swiss Re, Allianz) | Sharing data and information<br>(Finance Norway)<br><br>Direct risk resilience support<br>(Swiss Re) | Product innovations<br>(Index Insurance)<br><br>Distribution and Deployment<br>(Mobile technology) | Portfolio analysis and disclosure<br>(Montreal Carbon Pledge)<br><br>Investment frameworks and funding commitments<br>(Axa) |
| **Multi-stakeholder Actions** | Policy-oriented partnerships<br>(Australian Business Roundtable, P4A) | Partnerships for risk assessment: sharing capabilities and knowledge<br>(1-in-100 Initiative) | Partnerships for access: engagement, capacity building, and implementation<br>(A2II, IIF, GIIF) | Partnerships to develop project pipelines<br>(GreenInvest) |
| **Actions** | Regional insurance facilities and partnerships<br>(African Risk Capacity)<br>Insurance development roadmaps<br>Frameworks for risk prevention | Mandatory coverage approaches<br>(China)<br>Mandatory Risk assessment and disclosure<br>(US, UK) | Policy-directed market provision<br>(India)<br>Support for market development<br>(Philippines)<br>Public finance for access<br>(G7) | Solvency regulations, Capital requirements, and Tax incentives<br>(EU) |

Our discussions and engagements have also brought forward a set of overarching priorities for different channels of action – which we have grouped as requirements for success, remaining challenges, and issues for scale-up.

**Requirements for success, challenges, and priorities**

| | Requirements for success | Challenges | Priorities for scale-up |
|---|---|---|---|
| **Corporate** | Making commitments meaningful (clear, time-bound, quantifiable) | Skills and capabilities<br>Sustaining momentum | Moving from commitments to deals<br>Clear policy objectives and requests |
| **Multi-stakeholder** | Impact assessment, monitoring, and evaluation | Identification and engagement of core stakeholders | Knowledge sharing and communication |
| **Regulation** | Effective Incentives and compliance instruments<br>Cross-ministerial collaboration | Skills and Capabilities<br>Avoiding unintended consequences | Managing tensions between objectives<br>Strategies for managing policy misalignments |

Our assessment suggests key areas of focus for industry and regulators, including:

- Making commitments meaningful
- Moving from commitments to deals
- Managing tensions between objectives
- Addressing knowledge and skills gaps

Looking across the insurance sector, it is clear that there is significant progress already underway on many sustainable development challenges – and that emerging industry, regulatory, and policy efforts need to be integrated and scaled up. Catalysing the energy of 2015 into meaningful action for long-term change will require sustained effort in coming years. The UNEP Inquiry and the PSI have identified three potential measures to scale up the innovations identified in this document through enhanced coordination, knowledge sharing, and coherence:

- Convene an Insurance Network on Sustainable Development - to improve dialogue, stimulate innovation and partnerships, and improve coherence between existing initiatives.
- Establish a Sustainable Insurance Policy Forum - to scale up policy progress through enhanced cooperation and collaboration between governments.
- Agree a set of Insurance Development Goals to focus long-term efforts beyond 2015.

# 1 2015: A strategic opportunity for convergence

## 1.1 The role of the insurance industry in sustainable development

As risk managers, risk carriers and investors, the insurance industry has the potential to play a strategic role in securing sustainable development.[1] In brief, insurance promotes actions that prevent and reduce risk. Beyond providing financial resilience, insurance acts as an *enabler* of solutions that drive social and environmental sustainability. Moreover, insurers can support sustainable development through their investments across asset classes and geographies.

However, there are a number of barriers that can prevent the realisation of the sector's full potential, including market failures, misaligned policy frameworks, underdeveloped markets as well as gaps in critical capabilities. Disruptive technological innovations in data analytics and mobile technologies pose new challenges and opportunities to the insurance industry business model across the value chain, from risk pricing to product distribution.

A growing number of industry practitioners and policymakers are innovating in response to the converging challenges of natural disasters, social exclusion, climate change and long-term finance. Innovations are arising through multiple channels, including corporate commitments, multi-stakeholder partnerships, and insurance policy and regulation. The current challenge for the industry is to identify experiments with high-potential for scale up; actions which will not just contribute to economic prosperity, social inclusion and environmental regeneration, but also bring multiple co-benefits of enhanced consumer trust, insurance industry growth, and adaption to an evolving market environments.

## 1.2 A growing momentum

Up until 2000, the insurance industry initiatives focused on addressing sustainable development challenges were limited.[2] Microinsurance was not part of the insurance vocabulary. Ageing populations was not a global issue for the insurance industry. Index-based and usage-based insurance, insurance for people with HIV/AIDS, and insurance for renewable energy and green buildings and vehicles were virtually non-existent.

Natural catastrophes proved to be a seminal focal point: significantly increasing economic and social losses due to exposure to natural disasters around the world inspired an increasing sophistication of risk analysis, particularly in catastrophe risk models.

In the 15 years since 2000, there has been a clear evolution of initiatives that demonstrate the growing role of insurance in addressing sustainable development challenges, particularly in the areas of natural catastrophes and disaster risk reduction, access to insurance, and climate change:

- Consultative Group to Assist the Poor (CGAP) Working Group on Microinsurance (2002)
- Chief Risk Officers Forum Emerging Risks Initiative (2005)
- Munich Climate Insurance Initiative (MCII) (2005)
- ClimateWise Principles (2007)
- ILO Microinsurance Innovation Facility (2008)
- Microinsurance Network (2009)

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[1] *For a more substantive review, please see: Bacani, B. (2014) A Systemic View of the insurance industry, regulation, and sustainable development. UNEP Inquiry/UN PSI working paper, December 2014.*

[2] *Examples were the UNEP Statement of Environmental Commitment by the Insurance Industry (1995) and the UNEP Insurance Industry Initiative (1997).*

- Access to Insurance Initiative (2009)
- Kyoto Statement of The Geneva Association (2009)
- The Global Insurance Industry Statement: "Adapting to climate change in developing countries" (2010) of ClimateWise, MCII, Geneva Association and UNEP FI
- UNEP FI Principles for Sustainable Insurance (PSI) (2012)
- The Global Insurance Industry Statement: "Building climate and disaster-resilient communities and economies" (2013) of ClimateWise, MCII and UNEP FI
- The Climate Risk Statement of The Geneva Association (2014)
- ILO Impact Insurance Facility (2014)
- PSI Statement: "United for disaster resilience: The insurance industry's statement in support of disaster risk reduction" (2015)
- G7 Initiative on Climate Risk Insurance (2015)

Looking at this evolution, it is clear that progress has been made in many critical areas, including an increasing focus on Environmental, Social and Governance (ESG) issues in underwriting and investment. However, there has been limited progress on delivering coherence across different elements of the sustainable development agenda. This is beginning to change, with new models being put forward to address challenges at the nexus of access, climate change, and economic sustainability in insurance products – and continued scale-up is an immediate and pressing concern.

### 1.3 The 2015 opportunity

At the global level, 2015 represents a critical opportunity to build on progress so far with four milestones providing a strategic direction:

- March 2015: The Sendai Framework for Disaster Risk Reduction 2015-2030, which was produced at the 3rd UN World Conference on Disaster Risk Reduction in Sendai and succeeded the "Hyogo Framework for Action 2005-2015: Building the resilience of nations and communities to disasters"
- July 2015: The 3rd UN Conference on Financing for Development in Addis Ababa, which will support the implementation of the Post-2015 Sustainable Development Agenda
- September 2015: The UN Sustainable Development Goals, which will be adopted at a UN summit in New York and succeed the UN Millennium Development Goals as part of the Post-2015 Sustainable Development Agenda
- December 2015: The finalization of a new, universal climate agreement under the UN Framework Convention on Climate Change in Paris

Alongside this, G20 governments and others are putting in place critical elements of the post-crisis framework in terms of financial stability and mobilizing long-term finance. In April 2015, G20 finance ministers and central bank governors also requested the Financial Stability Board to convene financial sector participants to take account of climate-related issues.[3] Looking at these milestones it becomes clear that insurance is expected to play an increasingly significant role within the global sustainable development agenda – through underwriting, investment, knowledge sharing, capacity building, and innovation.

[3] *G20 (2015) G20 Finance Ministers and Central Bankers Meeting Communique.* https://g20.org/wp-content/uploads/2015/04/April-G20-FMCBG-Communique-Final.pdf

**Insurance and the Sendai Framework for Disaster Risk Reduction 2015-2030**

The 3rd UN World Conference on Disaster Risk Reduction produced the Sendai Framework for Disaster Risk Reduction 2015-2030, which aims to “prevent new and reduce existing disaster risk” through “measures that prevent and reduce hazard exposure and vulnerability to disaster, increase preparedness for response and recovery, and thus strengthen resilience.”

The Framework is organized around four priority areas: understanding disaster risk, strengthening disaster risk governance, investing in disaster risk reduction for resilience, and enhancing disaster preparedness. Risk transfer, risk sharing and insurance are explicitly referenced under Priority 3:

30. (b) Promote mechanisms for disaster risk transfer and insurance, risk sharing and retention and financial protection (…) in order to reduce the financial impact of disasters on governments and societies, in urban and rural areas;

31. (b) Promote the development and strengthening of disaster risk transfer and sharing mechanisms and instruments in close cooperation with partners in the international community, business, international financial institutions and other relevant stakeholders;

However, as the risk management process in insurance mirrors the disaster risk management continuum, each of the four priority areas is directly relevant to the insurance industry. The Framework recognizes that “while States have the overall responsibility for reducing disaster risk, it is a shared responsibility between Governments and relevant stakeholders.”

In this regard, it explicitly cites the business and financial institutions and regulators as key stakeholders:

31. (c) Business, professional associations and private sector financial institutions, including financial regulators and accounting bodies, as well as philanthropic foundations, to: integrate disaster risk management, including business continuity, into business models and practices (…); engage in awareness-raising and training for their employees and customers; engage in and support research and innovation as well as technological development for disaster risk management; share and disseminate knowledge, practices and non-sensitive data; and actively participate (…) in the development of normative frameworks and technical standards that incorporate disaster risk management.