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Principles for Sustainable Insurance

UNEP FI Principles for Sustainable Insurance

Manoj Pandey, May 2023

UNEP FI – Principles for Sustainable Insurance

- Launched at the 2012, UN Conference on Sustainable Development, the UNEP FI Principles for Sustainable Insurance (PSI) serve as a global framework for the insurance industry to address environmental, social and governance risks and opportunities.

- The PSI initiative is the largest collaborative initiative between the UN and the insurance industry with 150 signatories and 104 supporting institutions that account for 33% of global premium income.

- The projects by PSI initiative includes
    - Net-Zero Insurance Alliance,
    - The Sustainable Insurance Facility of the Vulnerable Twenty Group of Finance Ministers (V20),
    - Research on nature-positive insurance, development of Environmental, Social and Governance (ESG) guides for insurers
    - Supporting the implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and relevant to emerging frameworks such as the Task Force on Nature-related Financial Disclosures (TNFD).

UNEP FI - PSI

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Context for UNEP PSI

- The insurance industry is one of the largest global industries with more than USD 6 trillion in world premium volume and USD 36 trillion in assets under management.

- Given its systematic importance, there is a need for the insurance industry to assess climate change-related risks based on forward-looking information and scenarios

- The **UNEP Principles for Sustainable Insurance (PSI)** serve as a global framework for the insurance industry to
    - address environmental, social and governance (ESG) risks and opportunities
    - strengthen the insurance industry's contribution as risk managers, insurers and investors to building resilient, inclusive and sustainable communities and economies on a healthy planet.

- 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.

Managing Climate Change Risks

- UNEP PSI, together with the Financial Stability Board' Task Force on Climate Related Financial Disclosure (TCFD), identifies three categories for potential climate change-related risks and opportunities that insurers could face:
    - **Physical risks** related to changes in weather patterns, temperature and hydrological conditions
    - **Transition risks** towards a net-zero emissions economy and related fundamental changes in, for example, energy, food and transport systems
    - **Potential litigation risks** pertaining to climate change and breach of underlying legal frameworks on both the business and corporate levels
- The TCDF recommends an integrated approach to addressing and managing these risks

Assessing the Three Risks

Physical Risk

For physical risks, the insurance industry has been using risk models around hazard, exposure and vulnerability which lend themselves well for climate change analysis.

The biggest challenge remains access to highly granular quality data

widespread adoption of forward-looking climate risk assessments is largely dependent on the use of insurance risk management principles to facilitate the integration of climate risks into existing risk management processes.

Transition Risk

Transition risks represent a category where the insurance industry is less consistently using quantitative methods to assess future impacts.

Models, both qualitative and quantitative, for assessing macroeconomic impacts on long-tail insurance contracts can provide a building block to integrate transition risks.

Decarbonisation pathways translated into market, technological and regulatory changes in an interdependent manner across sectors are required.

Important changes to track would be those in energy and food systems, as well as other macroeconomic variables such as population and GDP growth

Litigation Risk

Litigation risk refers to risks related to litigation pertaining to climate change and breach of the underlying legal frameworks on both the business and corporate levels.

Climate change-related litigation risks are generally not yet assessed by the insurance industry in a quantitative and scenario-based manner.

Identification of insurance contract coverage for relevant business lines

Estimation of likelihood of successful recoverability on insurance contracts and of insured exposures

Impact Pathways Framework for Integrated Approach to Risk Management

Risk	Sector impact	Business line impact	Metrics impact	Strategic impacts
Change of risk e.g. for PHY: based on hazard, vulnera-bility and exposure, changing risk profile of typhoons / hurricanes e.g. for TRA: changing market, technology and regulations	**Economic impact on the sector because of risk** e.g. for PHY: severity of damage to property e.g. for TRA: CO_2 pricing or shift in share of renewables/ fossil fuels	**Impact on the line of business and the resulting business impact** e.g. impact on the amount or frequency of claims, AAL, AEP	**Potential change in key insurance metrics** e.g. loss ratio, premium profitability, sum insured	**Impact on strategic decisions to be made** e.g. insurability for products, demand

Focus of pilot group analysis

The impact pathway analysis delivers an understanding of the qualitative chain of impact for physical and transition risks on insurance products.

Analysis to be conducted by individual insurers

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Net Zero Insurance Alliance - NZIA

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The Net Zero Insurance Alliance

The NZIA (Net Zero Insurance Alliance) is **convened by the UN Principles for Sustainable Insurance Initiative (PSI):** It is the largest collaboration between the UN and the global insurance industry.

The commitment statement signed by the members of the NZIA is **accredited by** the UN Race to Zero and the Alliance is a member of the Glasgow Financial Alliance for Net-Zero.

The members have committed to transition their insurance and reinsurance underwriting portfolios to net-zero greenhouse gas (GHG) emissions by 2050, consistent with a maximum temperature rise of 1.5°C above pre-industrial levels by 2100, in order to contribute to the implementation of the Paris Agreement on Climate Change.

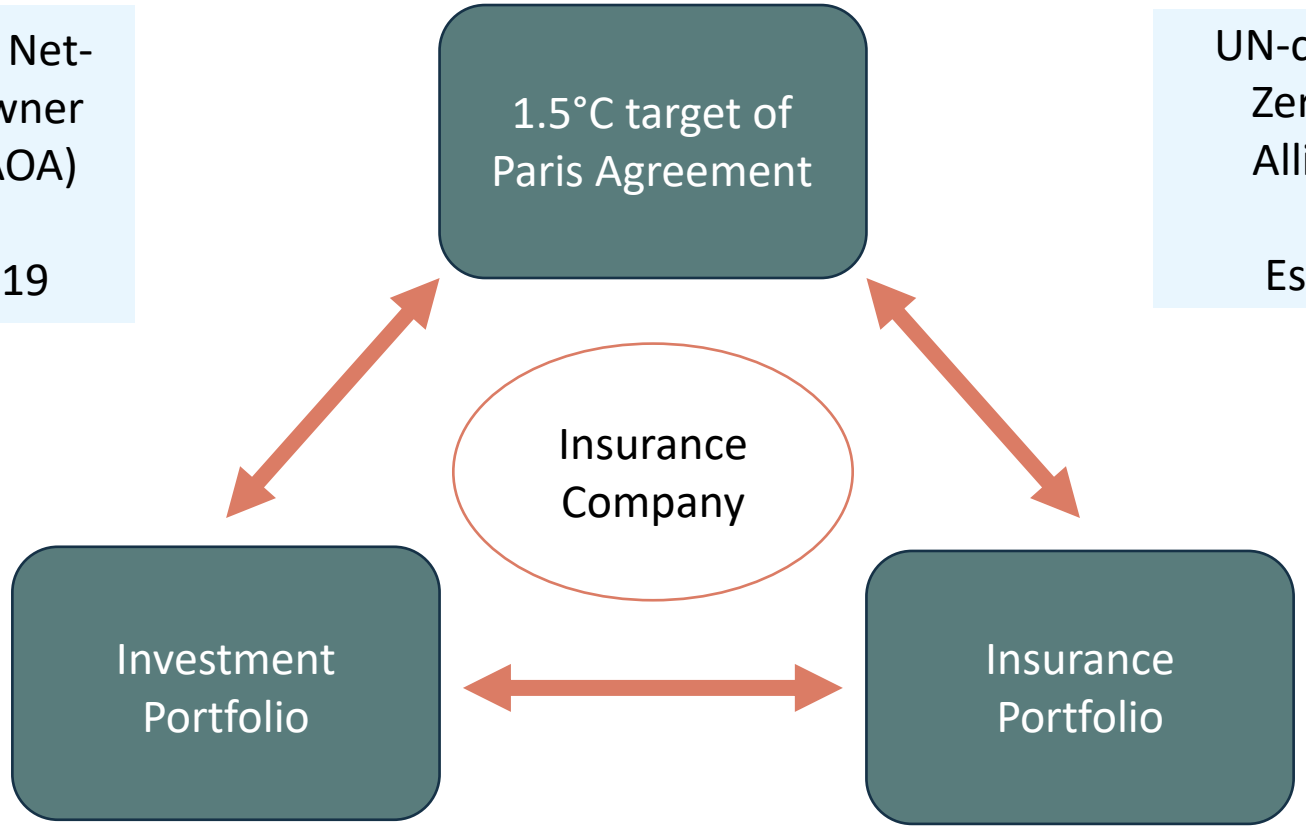
The NZIA was launched in 2021 by 8 founding members: AXA (NZIA Chair), Allianz, Aviva, Generali, Munich Re, SCOR, Swiss Re and Zurich Insurance Group. These insurers built on their climate leadership as investors through their membership in the UN-convened Net-Zero Asset Owner Alliance (NZAOA) established in 2019.

NZIA has now has a global membership of 30 full members.

How Can Insurance Support the Transition to a Net-Zero Emissions Economy?

UN-convened Net-Zero Asset Owner Alliance (NZAOA)

Est. Sept 2019



UN-convened Net-Zero Insurance Alliance (NZIA)

Est. July 2021

Potential Approaches to Net-Zero Insurance

Organisations joining the NZIA will seek to meet their Commitment through net-zero approaches relevant to insurance and reinsurance underwriting portfolios

Underwriting criteria
(e.g. carbon-intensive activities)

Engagement with clients & potential clients
(decarbonisation pathways)

Green insurance products & solutions
(insuring the transition)

Sustainable claims management
(circular economy)

Risk management frameworks
(integration of net-zero criteria)

Policy engagement
(science-based & just transition of economic sectors to net zero)

UNEP PSI – V20 Sustainable Insurance Facility (SIF)

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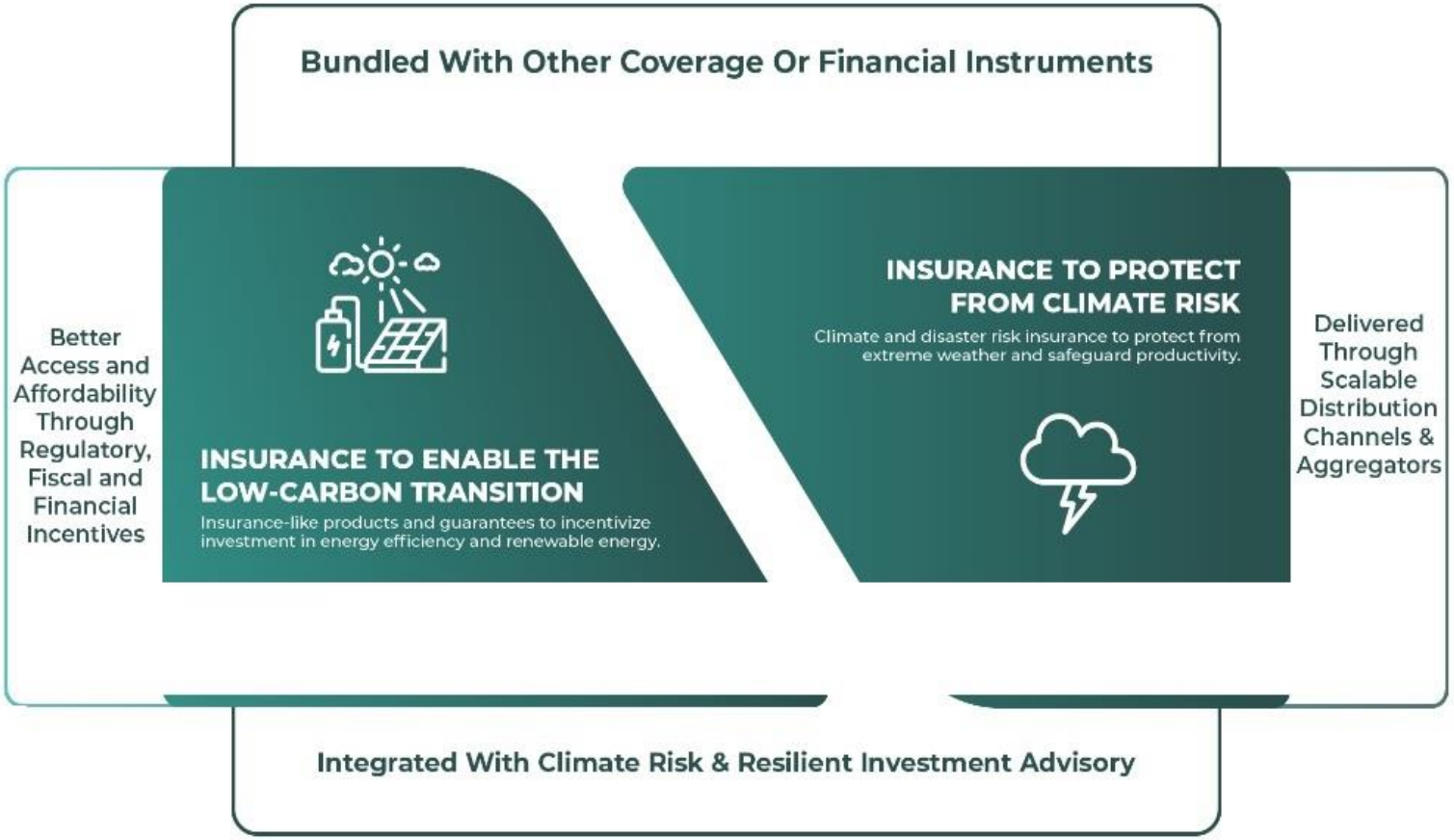
The UNEP PSI – V20 Sustainable Insurance Facility

- The UNEP-FI – V20 Sustainable Insurance Facility (SIF) is a project pipeline development facility
- SIF assists V20 member countries in scoping the financial protection needs of MSMEs in the context of climate change.
- SIF facilitates project concept and proposal development under the Leadership of V20 Finance Ministries
- SIF's secretariat is based at the UNEP – FI and is guided by the V20 group of finance ministries.



How the V20 SIF Assist MSMEs to Address the Protection Gap

As a Catalyst – Bring together relevant stakeholders to design optimal climate risk solutions for MSMEs , securing support of finance ministries and regulators

Offering Technical Advisory – Ensure access to high quality technical advisory and assistance to design demand-led products, design sustainable business models, scalable distribution strategies and drafting needed business proposals

Making Financing Accessible – Help match internationally available funding to identified projects and help projects come to life.

Thank you

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