Multi-year Expert Meeting on Transport, Trade Logistics and Trade Facilitation:

Third Session:
Small Island Developing States: Transport and Trade Logistics Challenges

24 – 26 November 2014

A Pioneering Global Sustainability Framework and Initiative

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The Principles for Sustainable Insurance Initiative

The insurance industry as an example of a key stakeholder in building disaster resilience and promoting sustainable development
Why the insurance industry?
Uniquely positioned to tackle environmental, social and governance (ESG) risks and opportunities in a changing risk landscape

Examples of environmental, social and governance issues relevant to insurance
- Climate change and extreme weather events
- Natural catastrophe risks
- Natural resource depletion
- Biodiversity loss and ecosystem degradation
- Water management and scarcity
- Food insecurity
- Pollution
- Human rights and labour standards
- Social inequality and financial exclusion
- Emerging health risks and pandemics
- Ageing populations
- Regulations (building codes, workplace and product safety standards, environmental laws)
- Accountability and transparency
- Trust and reputation
- Business principles and ethics
- Corruption
- Misaligned interests
The Principles: A global framework to drive systemic change

Principle 1: We will embed in our decision-making environment, social and governance issues relevant to our insurance business.

Principle 2: We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.

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

Principle 4: We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.

Global launch of the PSI Initiative

2012 UN Conference on Sustainable Development

“The Principles for Sustainable Insurance provide a global roadmap to develop and expand the innovative risk management and insurance solutions that we need to promote renewable energy, clean water, food security, sustainable cities and disaster-resilient communities.

“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
Michael Diekmann, CEO, Allianz Group

“Beginning in 2014 the Allianz ESG [Environmental, Social, and Governance] Guidelines will cover sensitive topics for all new business globally. This is a further milestone on our way to becoming the most sustainable insurer and asset manager, initiated by our ESG Board in 2012. We are now in the position to meet the aims of the Principles for Sustainable Insurance and to work together to accelerate the adoption of ESG by our industry. We feel it is critical to achieve integration of ESG across the entire insurance industry value chain.”

Henri de Castries, CEO, AXA Group

“As an insurer, our business is to protect people over the long term; we therefore have a responsibility to leverage our skills to help build a stronger and safer society. I am very proud the AXA Group is signing the Principles for Sustainable Insurance. I believe that by integrating, with the other signatories, environmental, social, and governance (ESG) issues into decision-making across the insurance value chain, we will contribute to a more sustainable insurance industry. This is another step for us in our engagement towards corporate responsibility, but also a call for action for the coming years. I am convinced that, with these Principles, we will better serve our clients and society as a whole.”

Dr Nikolaus von Bomhard, CEO, Munich Re Group

“Munich Re has adopted an active role in developing the Principles for Sustainable Insurance. Our success factors include not only efficient risk and capital management but also forward thinking and action. This is how we create lasting value. Putting quality before quantity enables us to achieve long-term profitable growth. We will use the Principles as a blueprint to further integrate environmental, social and governance factors into our core business. In doing so, we enhance our risk management.”

Michel Liès, CEO, Swiss Re Group

“The Principles for Sustainable Insurance create a global framework to manage environmental, social and governance challenges. I am proud that the insurance industry has now formally agreed to take the necessary steps towards this important common goal of making societies more resilient, innovative and inclusive in the interest of all.”

Douglas Camacho
President, Insurance Association of the Caribbean

“For the small island developing states of the Caribbean, a region known for its vulnerability and constant threat from natural disasters, the launch of the PSI bears great importance to its citizens and to the Caribbean insurance industry.

“Our association is pleased to be a part of this initiative and were proud to be the champions to help introduce this initiative to our members and colleagues.

“The IAC is committed to developing, incorporating and promoting sustainable programmes to help our region prepare for and cope with the impact of climate change and looks forward to playing an active part in making the initiative a success.”
PSI membership by country of domicile

Implementing the Principles: Examples
A company-wide approach

Swiss Re's Sustainability Risk Framework spanning industry sectors and environmental, social and governance issues

- Oil & gas
- Defence
- Mining
- Dams
- Forestry & logging
- Animal testing
- Nuclear weapons proliferation
- Human rights & environmental protection
Implementing the Principles: Examples
A market-wide approach

2015 environmental, social and governance (ESG) goals by the Brazilian insurance industry

Through the work of Brazilian PSI signatories and the Brazilian Insurance Confederation

Goal 1: 40% of insurers will integrate ESG criteria into their risk underwriting policy

Goal 2: 30% of insurers will have an ESG engagement programme targeted at brokers

Goal 3: 50% of insurance industry will integrate official public policy from municipal, state and federal governments into their social responsibility policy

Goal 4: 50% of insurers will report on ESG criteria

Brazilian Insurance Confederation (CNseg) monitoring progress through surveys since Q1 2014

Implementing the Principles: Examples
A UN system-wide approach

UN Environment Programme

UN Global Compact

UN Framework Convention on Climate Change

International Labour Organization

World Meteorological Organization

UN Office for Disaster Risk Reduction

UN Conference on Trade & Development
Implementing the Principles: Examples
A global insurance industry approach

Global consultation on insurance regulation and sustainable development by the PSI and UNEP Inquiry into the Design of a Sustainable Financial System

The global sustainable development agenda en route to 2015 and beyond

What role will the insurance industry play?

- The Post-2015 UN Framework for Disaster Risk Reduction, which will succeed the “Hyogo Framework for Action 2005-2015: Building the resilience of nations and communities to disasters”

- The Post-2015 UN Development Agenda and the creation of the UN Sustainable Development Goals, which will succeed the UN Millennium Development Goals

- An International Climate Agreement under the UN Framework Convention on Climate Change to be decided by 2015

- The Global Framework for Climate Services under the World Meteorological Organization

- The 2016 World Humanitarian Summit
Small Island Developing States (SIDS)

Disaster risk is acute in developing countries and SIDS

Human vulnerability to climate change

2013 Global Assessment Report on Disaster Risk Reduction

1. SIDS have the world’s highest relative disaster risk
   - Annual average losses of SIDS due to earthquake = only 2% of global total
   - But 8 of top 10 countries that would lose largest proportion of annual capital formation in 1- and 250-year earthquake are SIDS
   - Annual average losses of SIDS due to tropical cyclone wind damage = only 1.4% of global total
   - But 6 of top 10 countries that would lose largest proportion of annual capital formation in 1- and 250-year cyclone are SIDS

Annual capital formation (gross fixed capital formation) = Total value of capital investments by the private and public sectors in a given year
Probable maximum losses from 1-in-250 year earthquakes as a % of annual capital formation

SIDS highlighted in bold
Source: GAR 2013

1 = More than 80%
Antigua and Barbuda, Barbados, Dominica, El Salvador, Grenada, Puerto Rico, Philippines, Solomon Islands, Trinidad and Tobago

2 = 60 - 80%
Dominican Republic, Honduras, Saint Vincent and the Grenadines, Tonga

3 = 40 - 60%
Aruba, Greece, Japan, Nicaragua

4 = 20 - 40%
Azerbaijan, Bhutan, Bolivia (Plurinational State of), British Virgin Islands, Colombia, Costa Rica, Cyprus, Djibouti, Ecuador, Georgia, Guatemala, Iceland, Jamaica, Liechtenstein, Malta, New Caledonia, Nepal, Peru, Palau, San Marino, Taiwan Province of China, Vanuatu, Samoa

5 = 10 - 20%
Afghanistan, Albania, Algeria, Armenia, Bangladesh, Bulgaria, Chile, Fiji, Iran (Islamic Republic of), Israel, Italy, Jordan, Kyrgyzstan, Lebanon, Monaco, Mexico, Oman, Pakistan, Panama, Papua New Guinea, Saint Lucia, Slovenia, Syrian Arab Republic, Tajikistan, Tunisia, Turkey, Uzbekistan, Venezuela (Bolivarian Republic of)

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Probable maximum losses from 1-in-250 year cyclonic wind damage as a % of annual capital formation

SIDS highlighted in bold
Source: GAR 2013

1 = More than 80%
Antigua and Barbuda, Bahamas, Belize, Barbados, Cayman Islands, Samoa, French Polynesia, Micronesia (Federated States of), Philippines, Puerto Rico

2 = 60 - 80%
Aruba, Comoros, Honduras, Jamaica, Mauritius, Tonga

3 = 40 - 60%
Dominica, Fiji, Grenada, Hong Kong Special Administrative Region of China, Japan, Mexico, Palau, Republic of Korea, Saint Vincent and the Grenadines, Taiwan Province of China

4 = 20 - 40%
British Virgin Islands, Dominican Republic, Macao Special Administrative Region of China, Trinidad and Tobago

5 = 10 - 20%
Bangladesh, Cuba, Guatemala, Madagascar, Mozambique, Saint Lucia
2013 Global Assessment Report on Disaster Risk Reduction

2. Climate change will magnify disaster risk in SIDS

- SIDS contribute less than 1% of total global CO2 emissions

- But climate change is likely to disproportionately magnify disaster risk due to sea level rise, associated flood and storm surge hazard, increasing cyclonic wind intensity, coastal erosion, saltwater intrusion into aquifers, and worsening water scarcity and drought

3. Disasters challenge the economic resilience of SIDS

- Disasters amplified in SIDS because economies undiversified → Hazard events may affect entire territory, many heavily indebted and have a constrained fiscal space

- Jamaica → Observed annual average losses due to tropical cyclones between 1991 and 2011 = 2.6% of annual average capital formation, contributing to sluggish GDP growth
4. Disaster risk reduction is a high traction strategy for SIDS

- With combination of high risks and low resilience, SIDS probably the countries where investments in disaster risk reduction and climate change adaptation are likely to reap the greatest benefits

- Investing in disaster risk reduction is most likely the best chance SIDS have to attract investment, strengthen resilience and improve competitiveness and sustainability
The PSI Global Resilience Project

Building disaster-resilient communities and economies

25

Last year, 20,000 people were killed or went missing due to natural disasters

Global economic losses due to natural disasters amounted to USD 131 billion, or almost 2% of GDP

Many nations spend more on disaster relief & recovery than on disaster risk reduction

Funds are diverted to dealing with disasters after the fact, rather than being spent on reducing the risk of disasters happening

BUT

The case for action:
A skewed funding focus
Investing in disaster risk reduction:
The benefits

More investment in disaster risk reduction will lead to:

- Less economic, social and environmental losses
- Safer and more disaster-resilient communities and economies
- Less public and private funds spent on disaster relief and recovery, enabling better investment
- More access to affordable insurance to help communities manage the uncertainty of adversity and the financial hardship associated with unexpected losses

The PSI Global Resilience Project

The project brings together insurers from around the world to:

- Deepen understanding of disaster risk reduction
- Assess the economic, social and environmental costs
- Use this information to help governments and communities manage risk
The PSI Global Resilience Project

First report: Assessing the effectiveness of risk reduction

<table>
<thead>
<tr>
<th>Social benefit: Reduction in lives lost</th>
<th>Social benefit: Reduction in lives adversely affected</th>
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<tbody>
<tr>
<td>Effectiveness</td>
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Economic benefit  Cost
The PSI Global Resilience Project

**First report: Assessing the effectiveness of risk reduction**

**Disaster risk reduction measures**
- Behavioural
- Structural
- Ecosystems

**Multi-hazard measures (cyclone, flood, earthquake)**
- Education & communication
- Risk mapping
- Early warning & evacuation

**Cyclone**
- Mangroves
- Sand dunes
- Seawalls

**Flood**
- Controlled barriers
- Wetlands
- Land-use planning

**Earthquake**
- Building codes
- Retrofitting
- Relocation

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**The PSI Global Resilience Project**

**Phase 1: 2014**
- Evaluate risk reduction measures and identify barriers (i.e. first report launched last June)

**Phase 2: 2014-15**
- Build a global disaster map with insurance information and identify at-risk communities
- Work with governments, communities and other stakeholders to drive change and reduce risk

**Process for Post-2015 UN Framework for Disaster Risk Reduction**
An example: The Australian experience

- Total economic costs of natural disasters in Australia average $6.3 billion each year, projected to rise to $23 billion by 2050. The Australian government invests $50 million each year in disaster risk reduction but more than $560 million in post-disaster relief & recovery. For every $10 spent on post-disaster relief & recovery, 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 and Safer Communities.

- In Sep 2014, the Australian government’s Productivity Commission released a draft report recognising the inequality of current natural disaster funding arrangements. It takes on board recommendations put forward by IAG and the Australian Business Roundtable in the “Building an open platform for disaster resilience decisions” research paper.

- The Commission has echoed the call for the 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.

- Thus, the Commission is recommending that the Australian government increase its state funding for disaster risk reduction to $200 million. This supports the Roundtable’s research which identifies economic savings of up to $14.6 billion by 2050 through nationally-coordinated disaster risk reduction investment, improved access to information, and prioritised research.

A systemic approach to building disaster resilience

- A greater funding focus on risk reduction, as opposed to disaster relief & recovery.
- More effective disaster risk reduction.
- A clear understanding of the disaster risk management continuum from understanding and reducing disaster risk to disaster relief & recovery and risk financing.
- More standardised data and greater data sharing to enable communities to identify vulnerabilities and best risk reduction measures.
- A portfolio approach, drawing on a number of risk reduction measures which address risk at a community level.
- Harness the full potential of the insurance industry in the disaster risk management continuum as risk managers, risk carriers and investors.
Towards a culture of prevention

“More effective prevention strategies would save not only tens of billions of dollars, but save tens of thousands of lives. Funds currently spent on intervention and relief could be devoted to enhancing equitable and sustainable development instead, which would further reduce the risk for war and disaster.

Building a culture of prevention is not easy. While the costs of prevention have to be paid in the present, its benefits lie in a distant future. Moreover, the benefits are not tangible – they are the disasters that did NOT happen.”

Kofi Annan (1999)

UNEP FI global survey of the insurance industry on climate change adaptation

Insurers generally rate physical risk management significantly above risk transfer, particularly in terms of benefit to society

Benefits and costs per physical risk management solution to building climate resilience in vulnerable communities
UNEP FI global survey of the insurance industry on climate change adaptation

Considering risk transfer solutions alone, the optimal solution is a public-private insurance system

Benefits and costs per risk transfer solution to building climate resilience in vulnerable communities

**Cost-effectiveness**

![Cost-effectiveness diagram]

**UNEP FI global survey of the insurance industry on climate change adaptation**

Most effective types of government intervention at different levels according to insurers

- **International level**
  - Adaptation research in the context of risk management and insurance
  - Availability, reliability and accessibility of weather and climate data
  - Loss models correlating weather data and asset statistics
  - Stakeholder dialogue (e.g. business, civil society)

- **Local level**
  - Flood prevention and control and drainage systems
  - Land use, planning and management
  - Disaster planning and management
  - Infrastructure resilience and safety (e.g. building codes)

- **National level (a keystone)**
  - All of the above plus:
    - Integrated risk management approaches and risk transfer solutions
    - Partnerships with the insurance industry (e.g. public-private)
    - Zoning; ecosystem management
    - Asset statistics including asset vulnerability
    - Insurance literacy
From aspiration to transformation

www.unepfi.org/psi