

**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**

Presentation by

Mr. Butch Bacani

Programme Leader

United Nations Environment Programme Finance Initiative

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UNEP **Finance Initiative**



PSI

Principles for Sustainable Insurance

A pioneering global sustainability framework and initiative

UNCTAD Multi-year Expert Meeting on Transport, Trade Logistics and Trade Facilitation (3rd session) (Small Island Developing States)

24-26 November 2014

Butch Bacani
Programme Leader
The UNEP FI Principles for Sustainable Insurance Initiative

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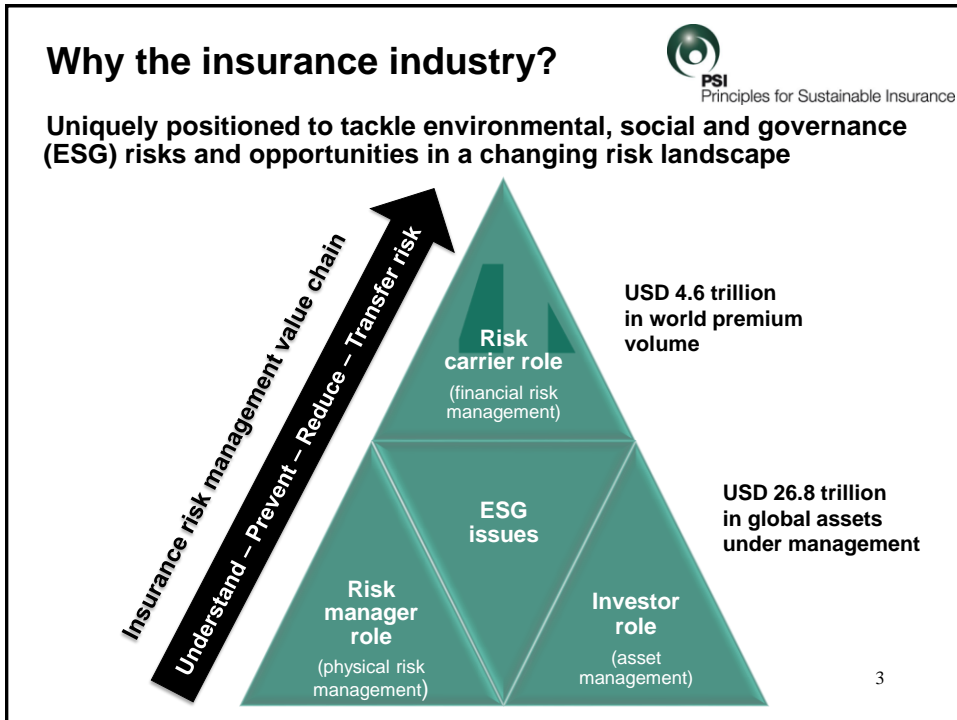


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Principles for Sustainable Insurance

The Principles for Sustainable Insurance Initiative

The insurance industry as an example of a key stakeholder in building disaster resilience and promoting sustainable development

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Examples of environmental, social and governance issues relevant to insurance

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- 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

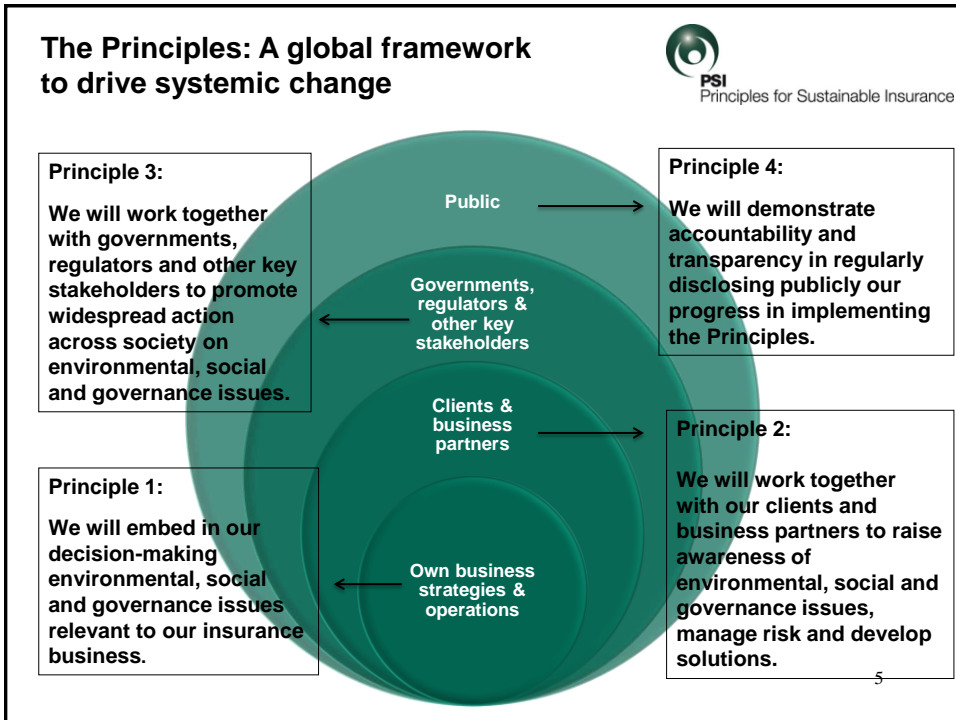
2009

The global state of sustainable insurance
Understanding and integrating environmental, social and governance factors in insurance

2007

Insuring for Sustainability
Why and how the insurers are acting

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Global launch of the PSI Initiative

2012 UN Conference on Sustainable Development



Ban Ki-moon
UN Secretary-General

“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.”

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Examples of CEO mandates



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."

Examples of CEO mandates



Douglas Camacho

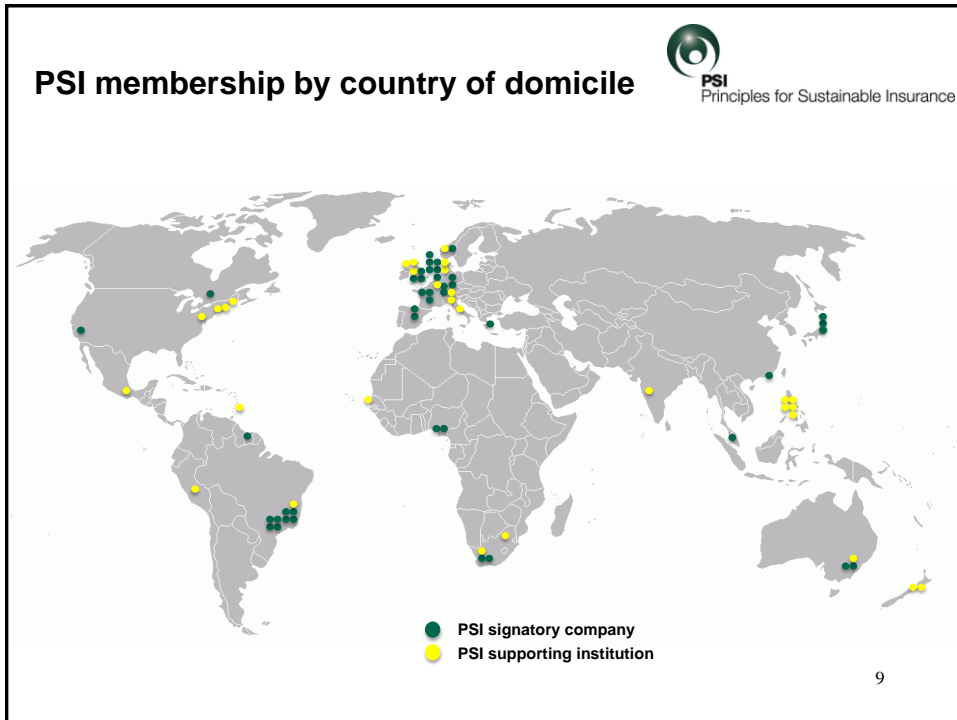
President, Insurance Association of the Caribbean



"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."



Implementing the Principles: Examples

A company-wide approach


Swiss Re
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Swiss Re's Sustainability Risk Framework

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

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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

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Implementing the Principles: Examples A UN system-wide approach





UN Global Compact



UNEP
UN Environment Programme



WHO
World Health Organization



UN Framework Convention on Climate Change



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UNISDR
The United Nations Office for Disaster Risk Reduction



International Labour Organization



WMO
World Meteorological Organization



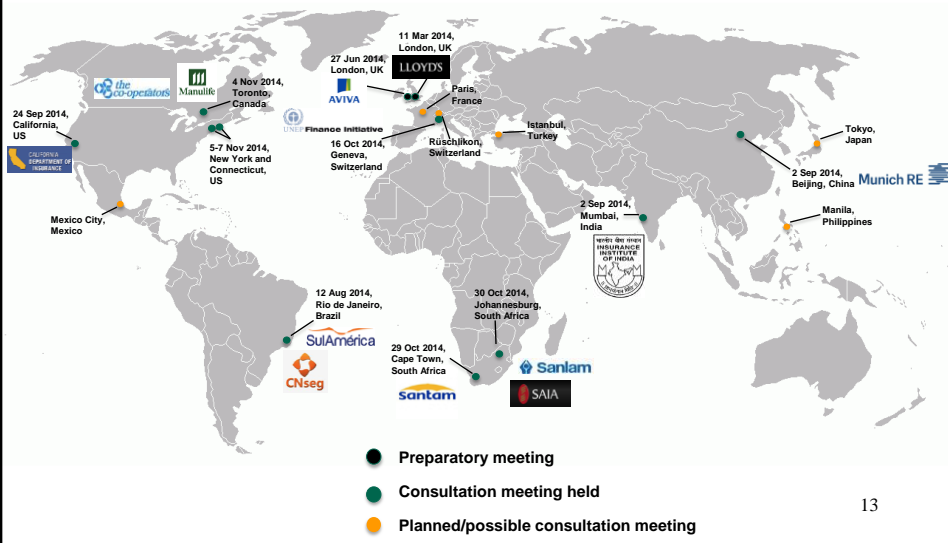
UN Conference on Trade & Development

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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



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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

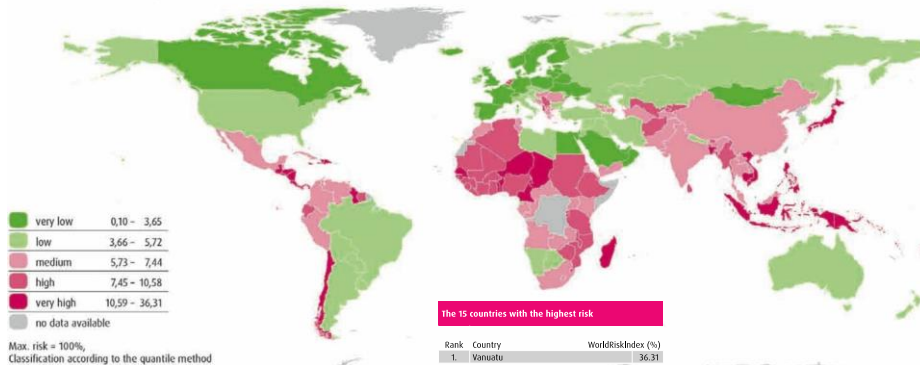
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Small Island Developing States (SIDS)

Disaster risk is acute in developing countries and SIDS

WorldRiskIndex

WorldRiskIndex as the result of exposure and vulnerability

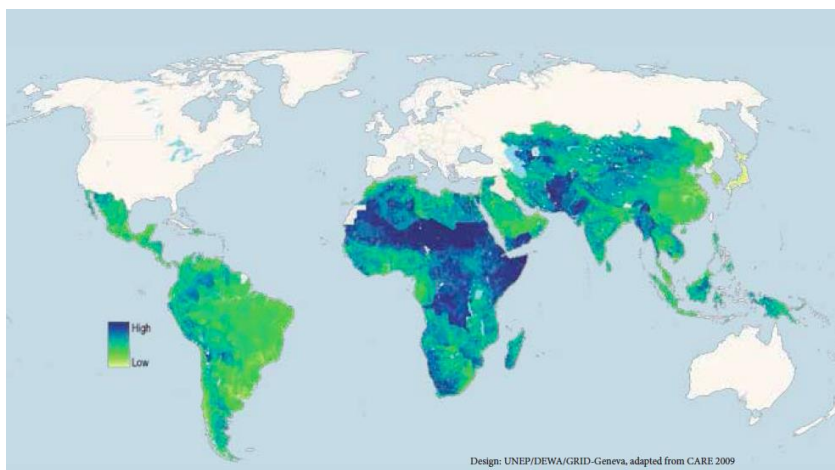


The 15 countries with the highest risk

Rank	Country	WorldRiskIndex (%)
1	Vanuatu	36.31
2	Tonga	28.62
3	Philippines	27.98
4	Guatemala	20.75
5	Bangladesh	20.22
6	Solomon Islands	18.15
7	Costa Rica	17.38
8	Cambodia	17.17
9	Timor-Leste	17.13
10	El Salvador	16.89
11	Brunei Darussalam	15.92
12	Papua New Guinea	15.81
13	Mauritius	15.39
14	Nicaragua	15.36
15	Fiji	13.69

Source: World Risk Report 2012

Human vulnerability to climate change



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2013 Global Assessment Report on Disaster Risk Reduction



1. SIDS have the world's highest relative disaster risk

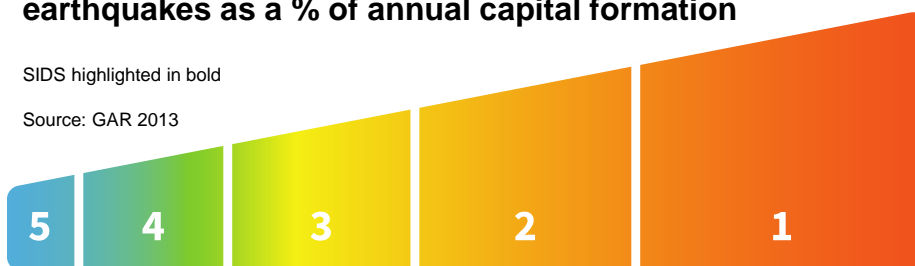
- Annual average losses of SIDS due to earthquake = only 2% of global total
- But **8 of top 10 countries** that would lose largest proportion of annual capital formation in 1-and-250 year earthquake are SIDS
- Annual average losses of SIDS due to tropical cyclone wind damage = only 1.4% of global total
- 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

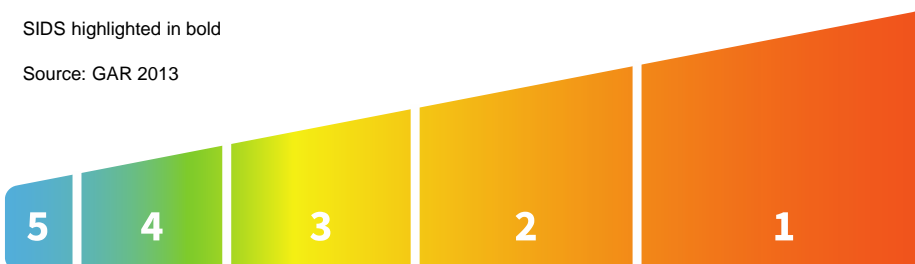
5 = 10 - 20%

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)

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

2013 Global Assessment Report on Disaster Risk Reduction



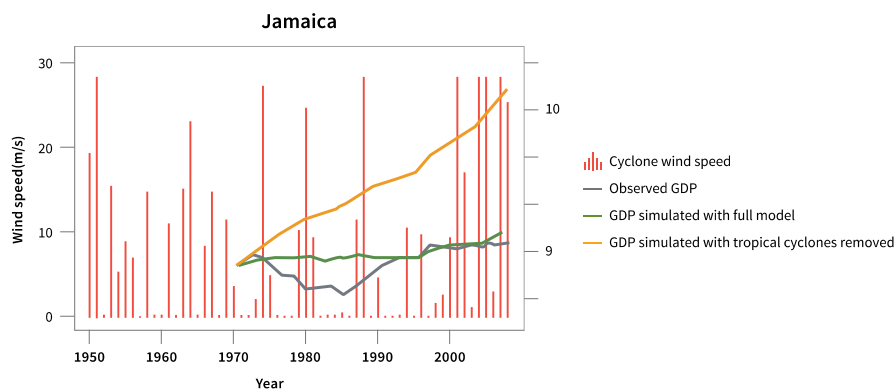
3. Disasters challenge the economic resilience of SIDS

- 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

2013 Global Assessment Report on Disaster Risk Reduction



Impact of tropical cyclones on GDP growth in Jamaica



2013 Global Assessment Report on Disaster Risk Reduction



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

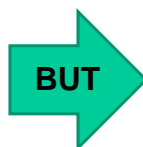
**Building disaster-resilient
communities and economies**

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The case for action: A skewed funding focus

**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**

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

Project Lead: Insurance Australia Group



The PSI Global Resilience Project

Building disaster-resilient communities and economies

Part one of a research series by the UNEP Principles for Sustainable Insurance Initiative

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The PSI Global Resilience Project

First report: Assessing the effectiveness of risk reduction



Social benefit:
Reduction in lives lost

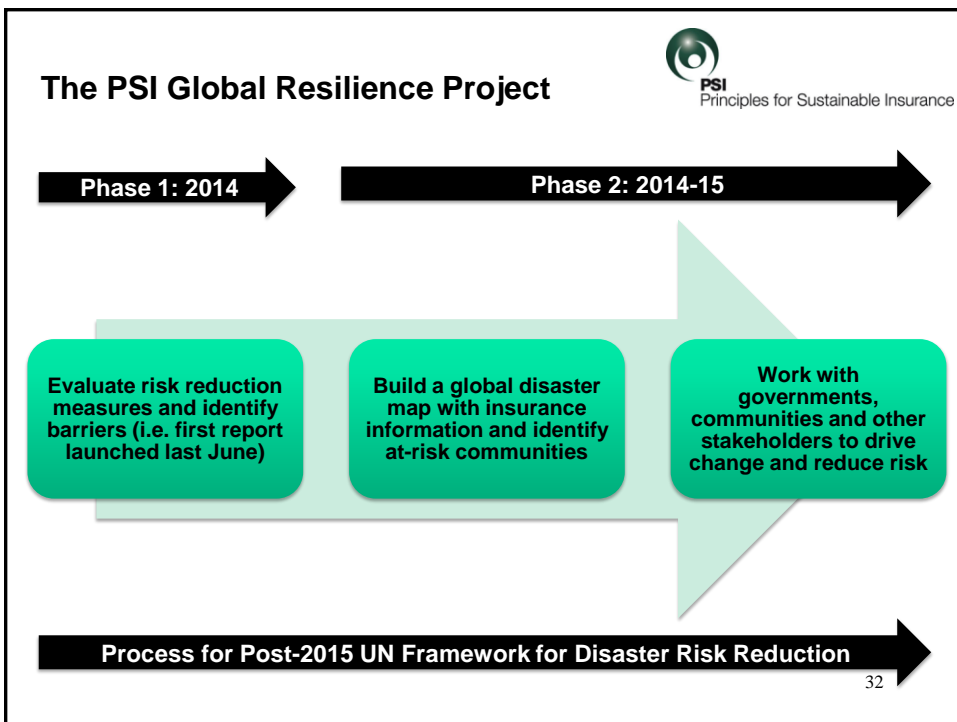
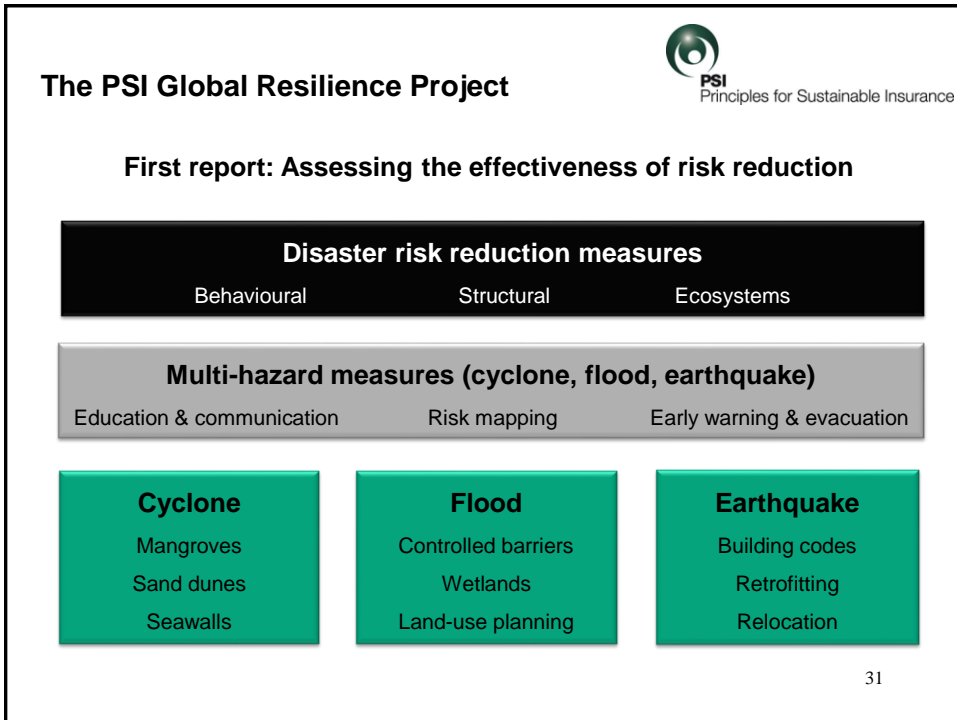
Social benefit:
Reduction in lives adversely affected


Effectiveness

Economic benefit

Cost

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An example: The Australian experience

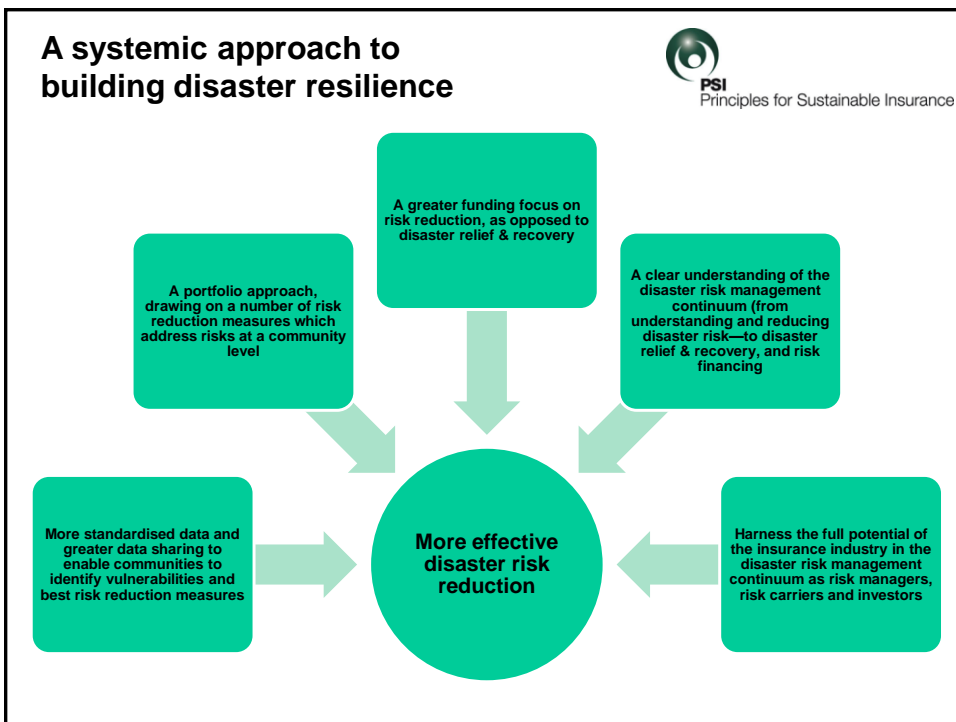
Australian government investment

Disaster risk
reduction
\$50 million

Post-disaster relief & recovery
\$560 million

- 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

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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)

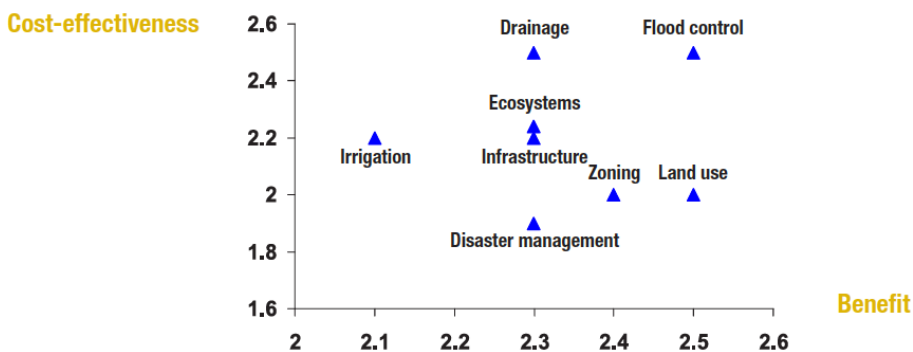
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UNEP FI global survey of the insurance industry on climate change adaptation



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



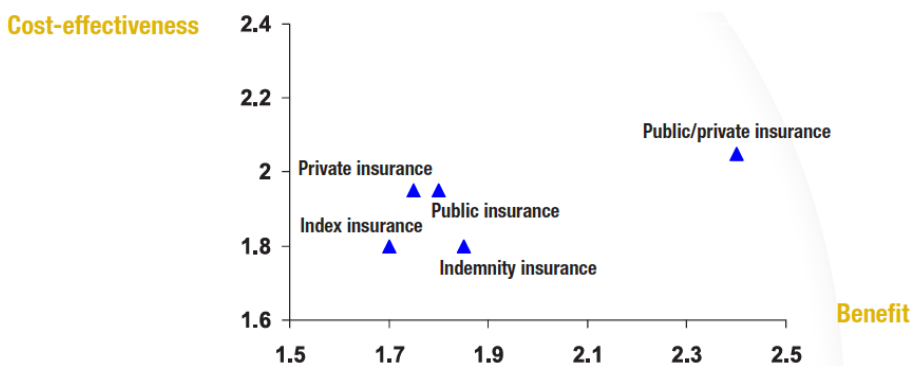
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UNEP FI global survey of the insurance industry on climate change adaptation



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



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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

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From aspiration to transformation

www.unepfi.org/psi