The UN Principles for Sustainable Insurance and its Net-Zero Insurance Alliance

7th OECD annual event on investment treaties
Investment treaties and climate change: Paris Agreement and net-zero alignment

10 May 2022

Butch Bacani
Programme Leader
UN Environment Programme’s Principles for Sustainable Insurance Initiative (PSI)
Evolution of key sustainability principles for finance and business

1992
UNEP Statement by Banks on the Environment & Sustainable Development

1995
UN Global Compact Principles (business / all industry sectors)

2000
UN Global Compact Principles (business / all industry sectors)

2004
IFC Equator Principles (project finance / banks)

2006
Principles for Responsible Investment (PRI) (UNEP FI & UN Global Compact)

2012
Principles for Sustainable Insurance (PSI) (UNEP FI)

2019
Principles for Responsible Banking (PRB) (UNEP FI)

Post 2020-Global Biodiversity Framework (2022)

Rio Earth Summit (1992)

UN Millennium Development Goals (2000)

UN Sustainable Development Goals (2015)

Rio+20 Summit (2012)

United Nations Framework Convention on Climate Change

Convention on Biological Diversity

Paris Agreement on Climate Change (2015)
The triple role of the insurance industry in sustainable development

Insurer role
(financial risk management)

Risk manager role
(physical risk management)

Investor role
(asset management)

Sustainable development challenges & opportunities

Over USD 6 trillion
world premium volume

Over USD 36 trillion
global assets
under management
The Principles for Sustainable Insurance: A global roadmap to drive systemic change

Principle 1: We will embed in our decision-making environmental, 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.
PSI membership by country of domicile

- Over 200 members and growing
- Insurers representing about one-third of world premium + USD 15 trillion in assets under management
- Largest collaborative initiative between the UN and the insurance industry

PSI signatory company (e.g. insurers, reinsurers, brokers, catastrophe risk modelling firms, specialist service providers)

PSI supporting institution (e.g. insurance associations, insurance initiatives, insurance regulators and supervisors, academia, civil society organisations)
PSI project to pilot the TCFD recommendations (Jan 2021)

- Assess climate-related risks in insurance portfolios in a forward-looking way, with a focus on the use of climate change scenarios, in line with TCFD recommendations
- A pioneering initiative covering climate-related physical, transition and litigation risks in one major collaborative study
- Final report launched in Jan 2021

“By insuring and investing with foresight, the insurance industry has the opportunity to break the ‘Tragedy of the Horizon’.”

PSI’s TCFD work endorsed by Mark Carney
UN Special Envoy on Climate Action & Finance
UK Prime Minister’s Finance Adviser for COP26
Co-Chair of Glasgow Financial Alliance for Net Zero (GFANZ)
An initial framework to support an integrated approach to assessing climate-related risks

<table>
<thead>
<tr>
<th>Physical risks</th>
<th>Transition risks</th>
<th>Litigation risks</th>
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<tbody>
<tr>
<td>Geography (country level)</td>
<td>Line of business</td>
<td>Geography / Jurisdiction</td>
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<tr>
<td>Hazard, vulnerability, insurance exposure</td>
<td>Economic sector</td>
<td>Economic sector</td>
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<tr>
<td>Line of business / Products</td>
<td>Geography (regional level)</td>
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- Hazard, vulnerability, and insurance exposure are assessed to identify key “at risk” countries
- Materiality of the impact of physical hazards on insurance product lines is evaluated.

- Changes in insurance demand based on the result of how different sectors are affected by transition risk drivers
- Analysis at intersection of economic sectors and lines of business, as these are affected by sector dynamics
- Highlighting of relevant geographical economic sector dynamics

- Key risk and opportunities will be assessed based on the underlying regulatory frameworks and litigation cases
- Geography / jurisdiction play a key role
Latest TCFD report (Oct 2021)

Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans

Measuring Portfolio Alignment: Technical Supplement
Raising the insurance industry’s climate ambition

From enhancing climate risk analysis to aligning insurance and investment portfolios with the 1.5°C target of the Paris Agreement

Source: 2° Investing Initiative
The NZOA Commitment: Over 70 asset owners representing more than USD 10 trillion in assets under management

- Transition investment portfolios to net-zero GHG emissions by 2050 consistent with 1.5°C target of the Paris Agreement
- Take into account best available scientific knowledge including IPCC findings
- Regularly report on progress, establish intermediate targets every 5 years in line with Paris Agreement
- Commitment embedded in holistic ESG approach, incorporating climate change, and emphasise GHG emissions reduction outcomes in real economy
- Advocate for and engage in corporate and industry action, as well as public policies, for low-carbon transition of economic sectors in line with science, and considering social impacts
- Commitment made with expectation that governments will follow through on their own commitments to ensure objectives of Paris Agreement are met
How can insurance support the transition to a net-zero emissions economy?

- **UN-convened Net-Zero Insurance Alliance** (established Jul 2021)
- **1.5°C target of Paris Agreement**
- **UN-convened Net-Zero Asset Owner Alliance** (established Sep 2019)

- Insurance company
  - Insurance portfolio
  - Investment portfolio
World’s leading insurers and reinsurers and PSI launch Net-Zero Insurance Alliance at G20 Climate Summit (Jul 2021, Venice)
Net-Zero Insurance Alliance (NZIA) commitments

1. Transitioning all operational and attributable GHG emissions from its insurance and reinsurance underwriting portfolios to net-zero emissions by 2050 consistent with a maximum temperature rise of 1.5°C

2. Individually set science-based intermediate targets every 5 years and independently report on progress publicly and annually

3. First intermediate targets to be made public within 6 months of publication of NZIA target-setting protocol (to be published by Jan 2023), or within 6 months of joining NZIA if such protocol already exists

4. Consider latest available scientific knowledge and associated social impacts, and findings of recognised reports (e.g. IPCC, International Energy Agency’s Net Zero by 2050 report)

5. Support TCFD recommendations, emerging frameworks such as Task Force on Nature-related Financial Disclosures (TNFD)
NZIA commitments

6. Support **UN Sustainable Development Goals (SDGs)** and **Post-2020 Global Biodiversity Framework**

7. Sign **UN Principles for Sustainable Insurance (PSI)**

8. Aim to transition **investment portfolios to net-zero GHG emissions** and join relevant (e.g. Net-Zero Asset Owner Alliance) for **total balance sheet approach** to net zero

9. Work together with **insurance associations, regulators and supervisors, governments, trade bodies, policymakers, UN** to promote NZIA goals, and to seek consistency of regulatory, supervisory and policy frameworks with the net-zero transition

10. Engage with **insurance industry and financial sector peers and trade bodies, leading scientific organisations, academia, NGOs** on NZIA goals
Potential approaches to net-zero insurance

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)
Announcement

Partnership for Carbon Accounting Financials collaborates with UN-convened Net-Zero Insurance Alliance to develop standard to measure insured emissions
Key NZIA implementation milestones (2022-23)

- Launch of PCAF Insurance-Associated Emissions Standard (in collaboration with NZIA) (Oct or Nov 2022)
- Launch of NZIA Target-Setting Protocol (in collaboration with SBTi and part of SBTi Financial Net-Zero Standard) (Jan 2023)
- NZIA members to individually set and publish intermediate science-based 5-year targets (Jul 2023)
NZIA membership is growing: Insurers representing about 12% of world premium volume (as of 10 May 2022)

Founding members (8)

- AXA
- Allianz
- Aviva
- Generali
- Munich RE
- Scor
- Swiss Re
- Zurich

NZIA Chair

New members (16)

- Achmea
- Beazley
- Catalana Occidente
- Hannover Re
- Intesa Sanpaolo Vita
- Lloyd's
- Mapfre
- Matmut
- NN
- QBE
- Shinhan Life
- Tokio Marine
- Hellenic Hull
- ICEA Lion Group

Coming in 2022

- NZIA commitment for brokers
- NZIA commitment for supporting institutions (e.g. insurance associations)
Glasgow Financial Alliance for Net Zero (GFANZ)

GFANZ unites financial actors committed to climate action accredited by the UN Race to Zero.

- Net Zero by 2050 at the very latest
- Covering all emissions scopes – 1, 2 and 3
- Robust 2030 interim targets
- Transparent progress reporting

GFANZ: Co-Chaired by Mark Carney and Mike Bloomberg

- Brings together Race to Zero initiatives across the financial sector to mobilise and raise net-zero ambition
NZIA white paper to demystify, shape and advance net-zero insurance thinking and practices (April 2022)

Insuring the net-zero transition: Evolving thinking and practices

A white paper produced by the Net-Zero Insurance Alliance, convened by UN Environment Programme’s Principles for Sustainable Insurance Initiative.

April 2022
Examples of PSI priorities to amplify sustainable insurance

PSI initiative to shape the sustainability agenda for the life & health insurance industry

PSI guide to better prevent and reduce ESG/sustainability risks in non-life insurance business

PSI TCFD projects to better understand and manage climate risks

V20 Sustainable Insurance Facility to build resilient MSMEs in most climate-vulnerable countries

PSI Insurance SDGs initiative to define sustainable insurance business and harness insurance products & solutions for the SDGs
Insuring for sustainable development

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