



# Emerging risks in the insurance industry

**15 September 2015, São Paulo, Brazil**

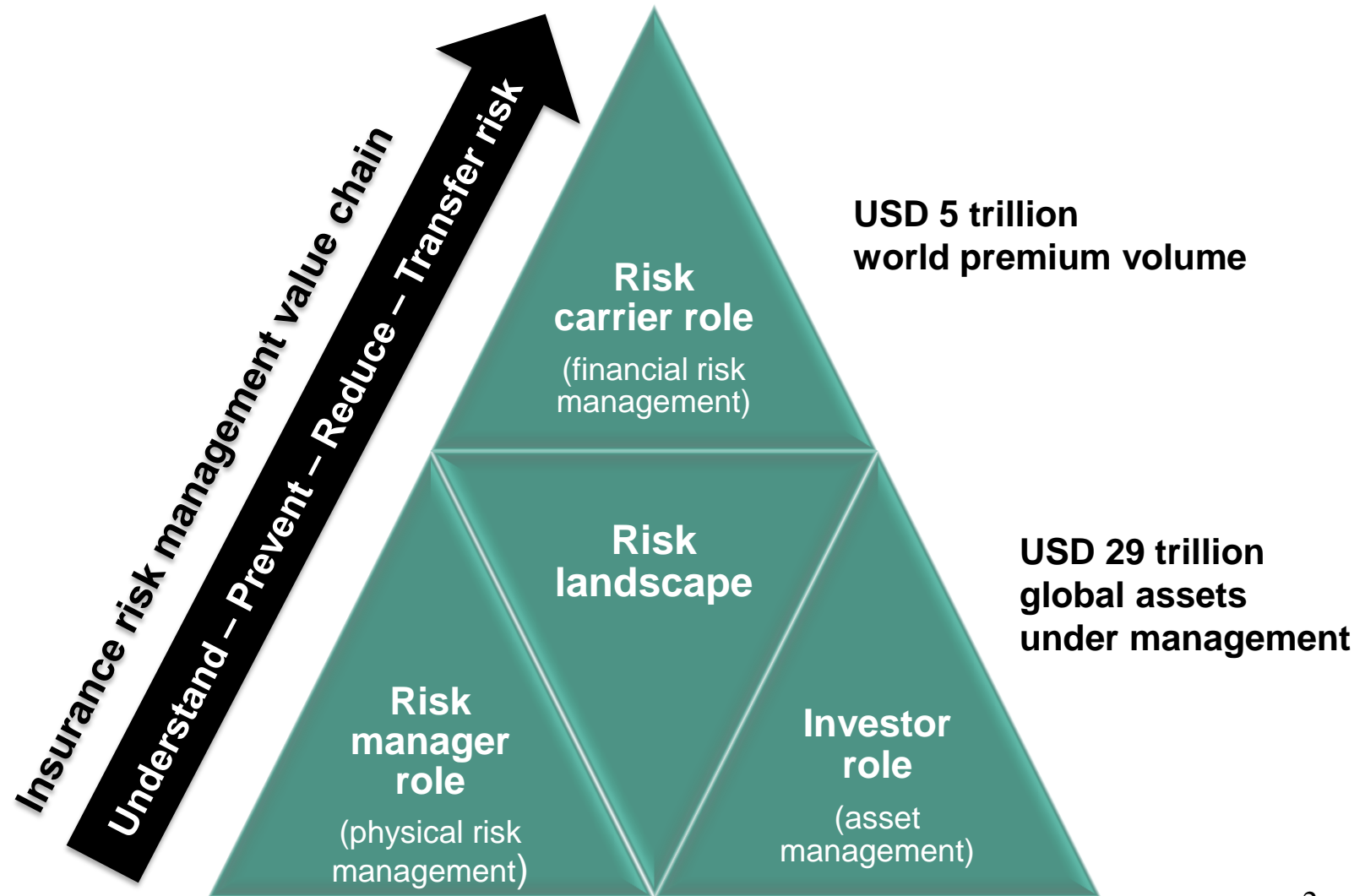
Butch Bacani  
Programme Leader  
The UNEP FI Principles for Sustainable Insurance Initiative

# The triple role of the insurance industry in managing risk



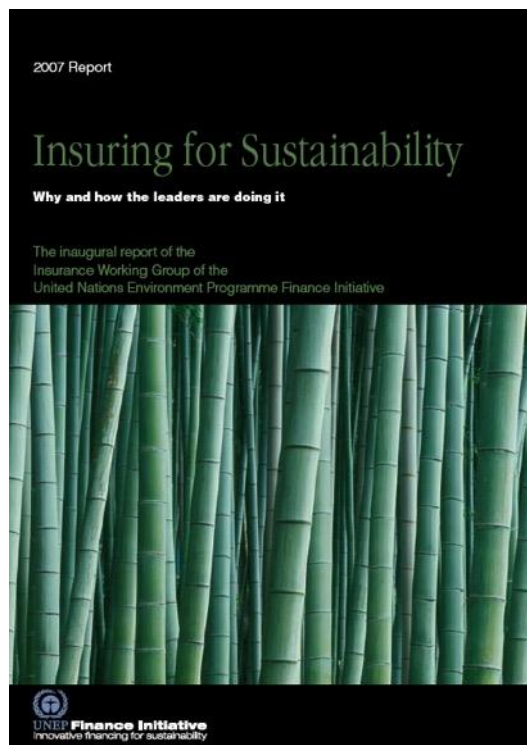
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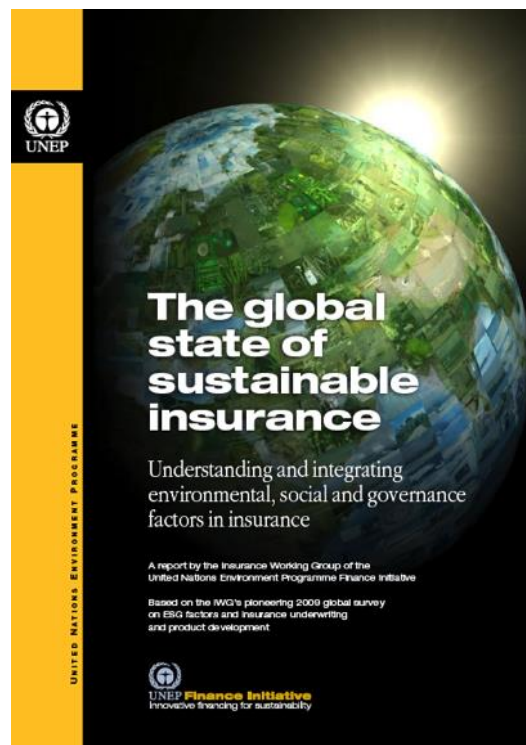


# Global studies by the UN and the insurance industry on environmental, social and governance risks and opportunities relevant to insurance

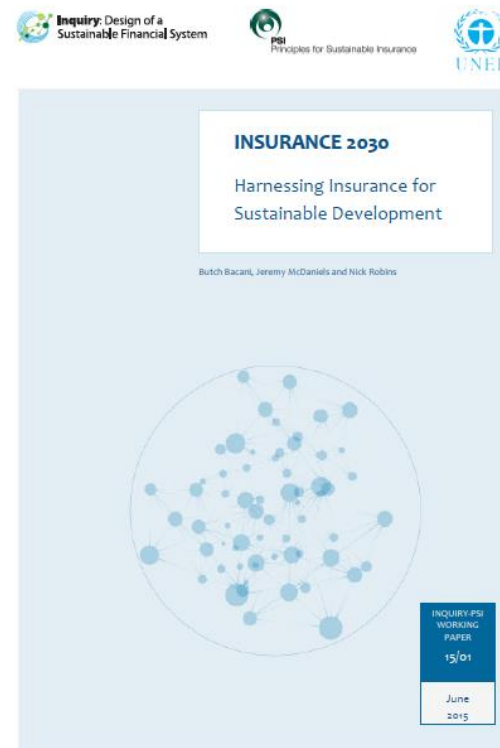
2007



2009



2015

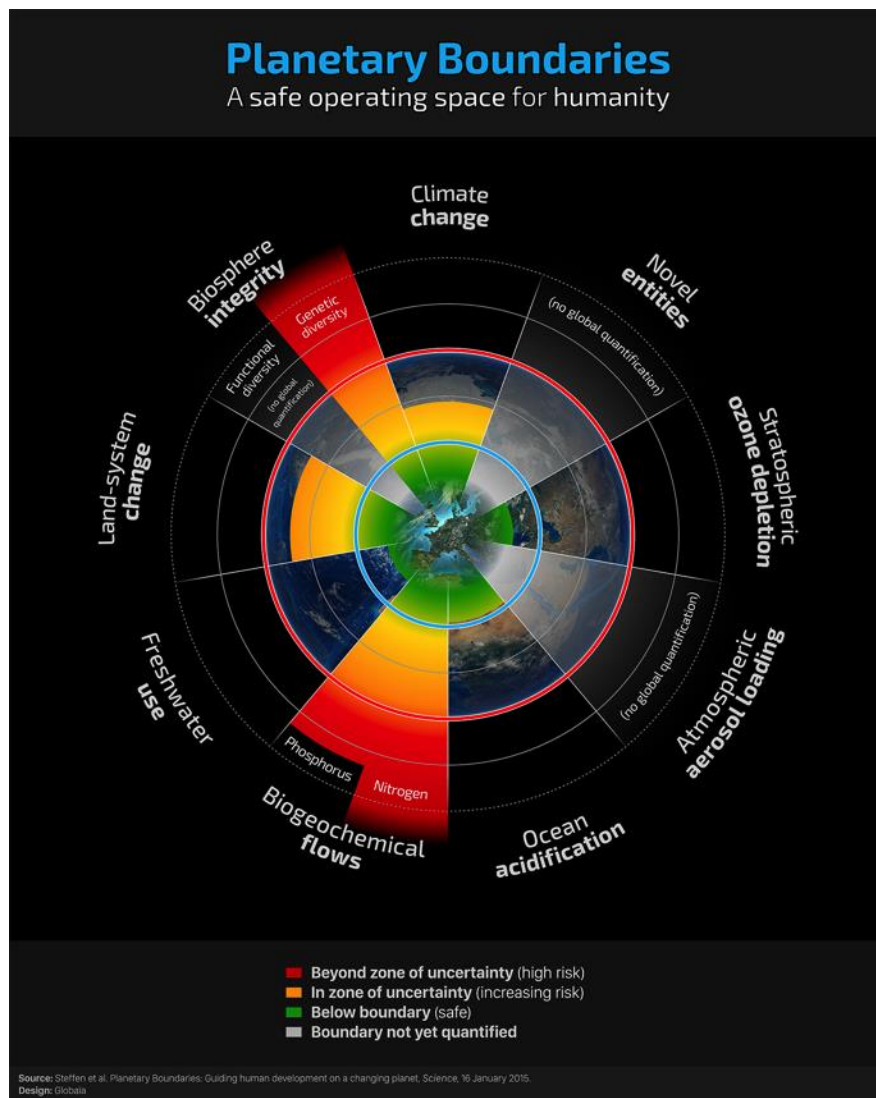


# Key environmental, social and governance risks and opportunities relevant to insurance

- Climate change and extreme weather events
- Natural disasters
- Biodiversity loss and ecosystem degradation
- Water scarcity
- Food insecurity
- Environmental pollution
- Violation of human rights and labour standards
- Social inequality and financial exclusion
- Emerging health risks and pandemics
- Ageing populations and demographic change
- Technological risks including big data
- Accountability and transparency issues
- Trust and reputation issues
- Unethical business conduct and practices
- Corruption
- Unfair treatment of customers

# Example of a changing risk landscape

The safe operating space of 4 of 9 interlinked planetary boundaries have already been exceeded



## The 9 planetary boundaries

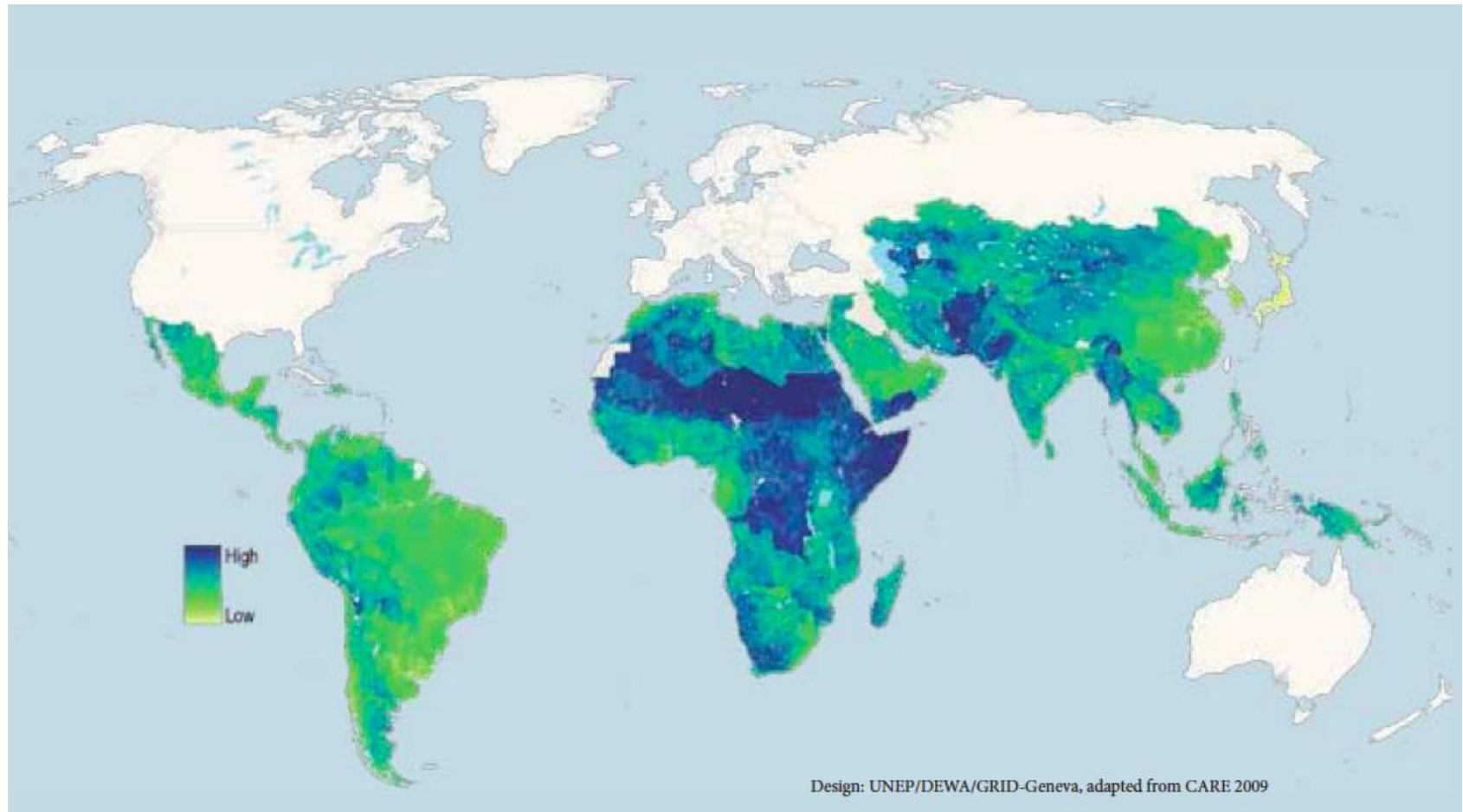
1. Change in biosphere integrity (biodiversity loss and species extinction)
2. Biogeochemical flows (nitrogen and phosphorus cycles)
3. Climate change
4. Land-system change (e.g. deforestation)
5. Ocean acidification
6. Freshwater use
7. Stratospheric ozone depletion
8. Novel entities (not yet quantified) (e.g. organic pollutants, radioactive materials, nanomaterials and micro-plastics)
9. Atmospheric aerosol loading (not yet quantified) (microscopic particles in the atmosphere that affect climate and living organisms)

Source: Steffen et al. 2015. Planetary Boundaries: Guiding human development on a changing planet. Science Vol. 347 no. 6223

# Human vulnerability to climate change



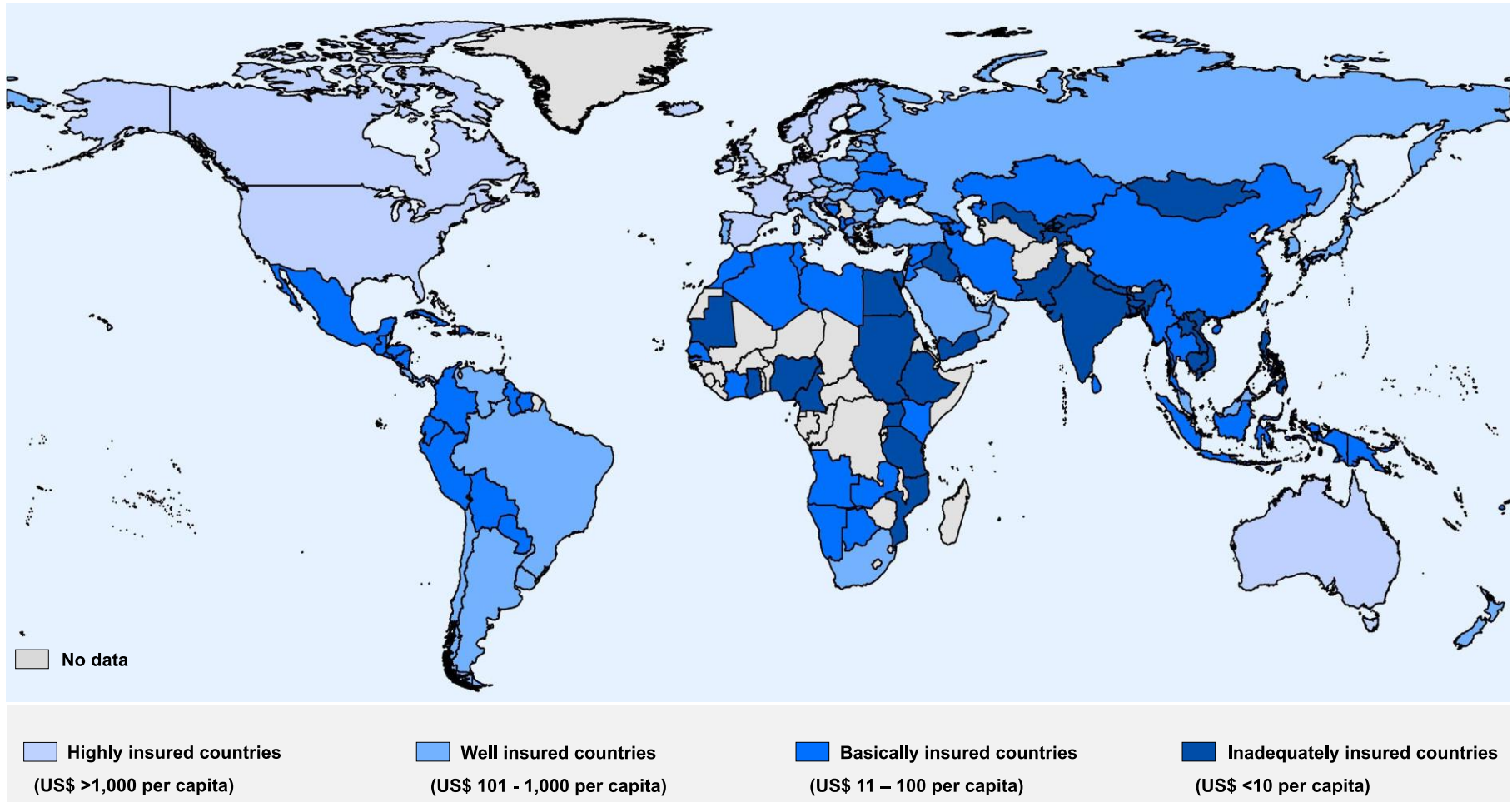
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# Worlds apart: Insurance density in developed and developing countries

## Property insurance premium per capita\*



\*Property insurance premium (non-life including health) per capita

Source: Munich Re (as at July 2010)

# Trust and reputation is a fundamental issue

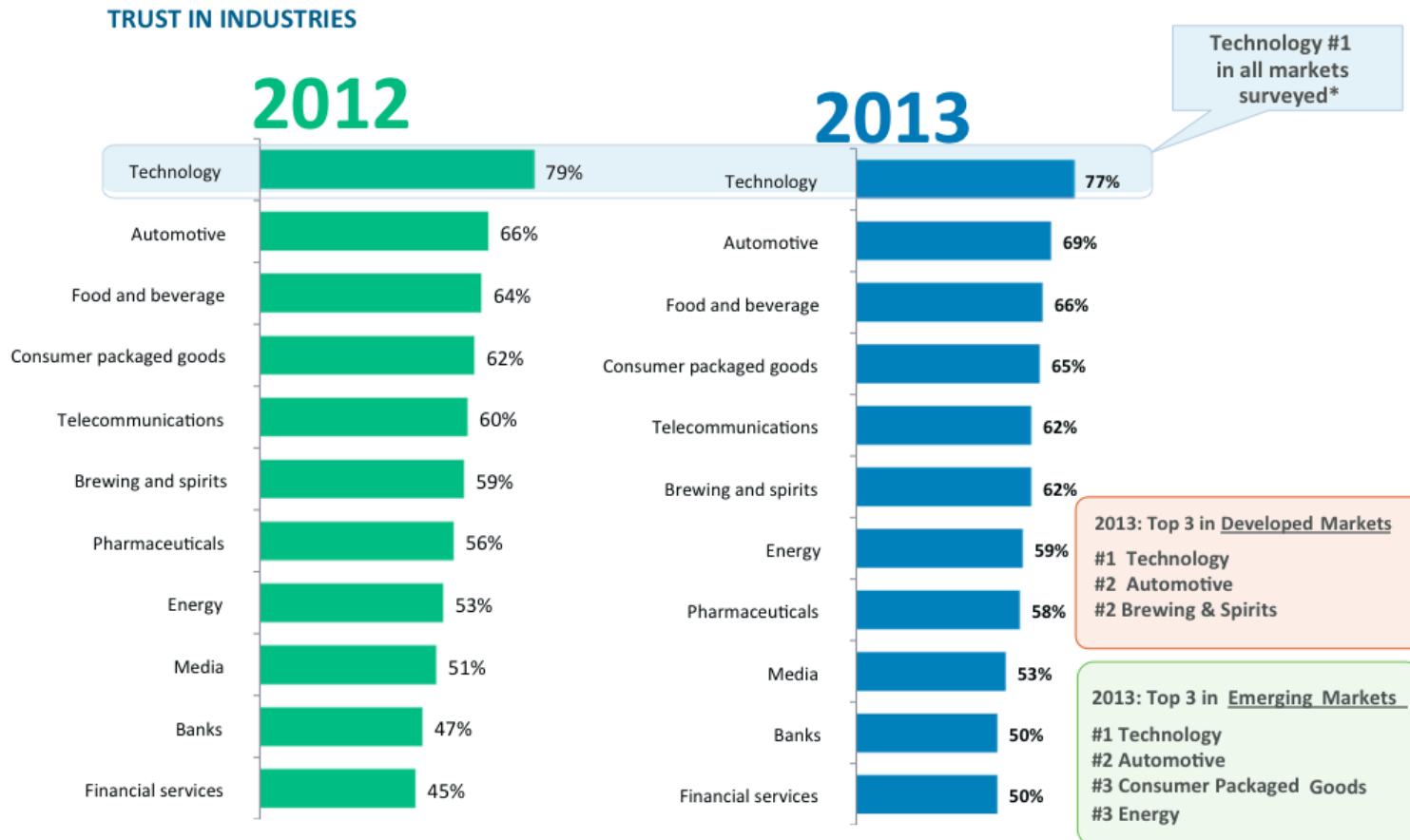


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## Global survey: Financial services and banks are least trusted across industries

How much do you trust businesses in each of the following industries to do what is right?



Source: 2013 Edelman Trust Barometer



# Global launch of the Principles for Sustainable Insurance (Rio de Janeiro, 2012)



## The vision of the PSI Initiative:

“A risk aware world, where the insurance industry is trusted and plays its full role in enabling a healthy, safe, resilient and sustainable society.”



# Global launch of the Principles for Sustainable Insurance

## 2012 UN Conference on Sustainable Development (Rio+20)



**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.”**

# The Principles for Sustainable Insurance: A global commitment to drive systemic change



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## 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 1:

**We will embed in our decision-making environmental, social and governance issues relevant to our insurance business.**

**Public**

**Governments,  
regulators &  
other key  
stakeholders**

**Clients &  
business  
partners**

**Own business  
strategies &  
operations**

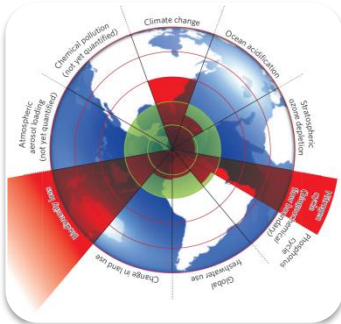
## Principle 4:

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

## 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.**

# Swiss Re methodology in assessing key sustainability issues for the global insurance industry



## Environmental

- Biodiversity loss
- Nitrogen cycle
- Climate change



## Social

- Human rights violations



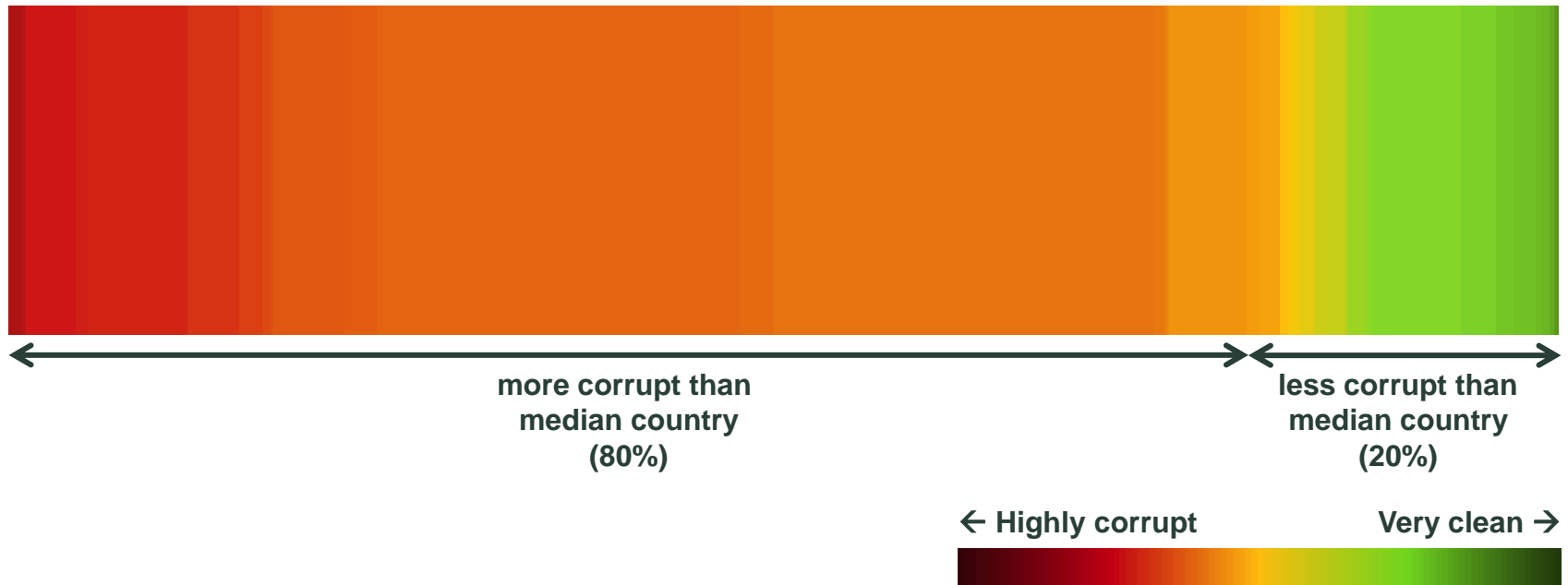
## Governance

- Corruption

# Corruption: Corruption Perceptions Index



Weighted by population



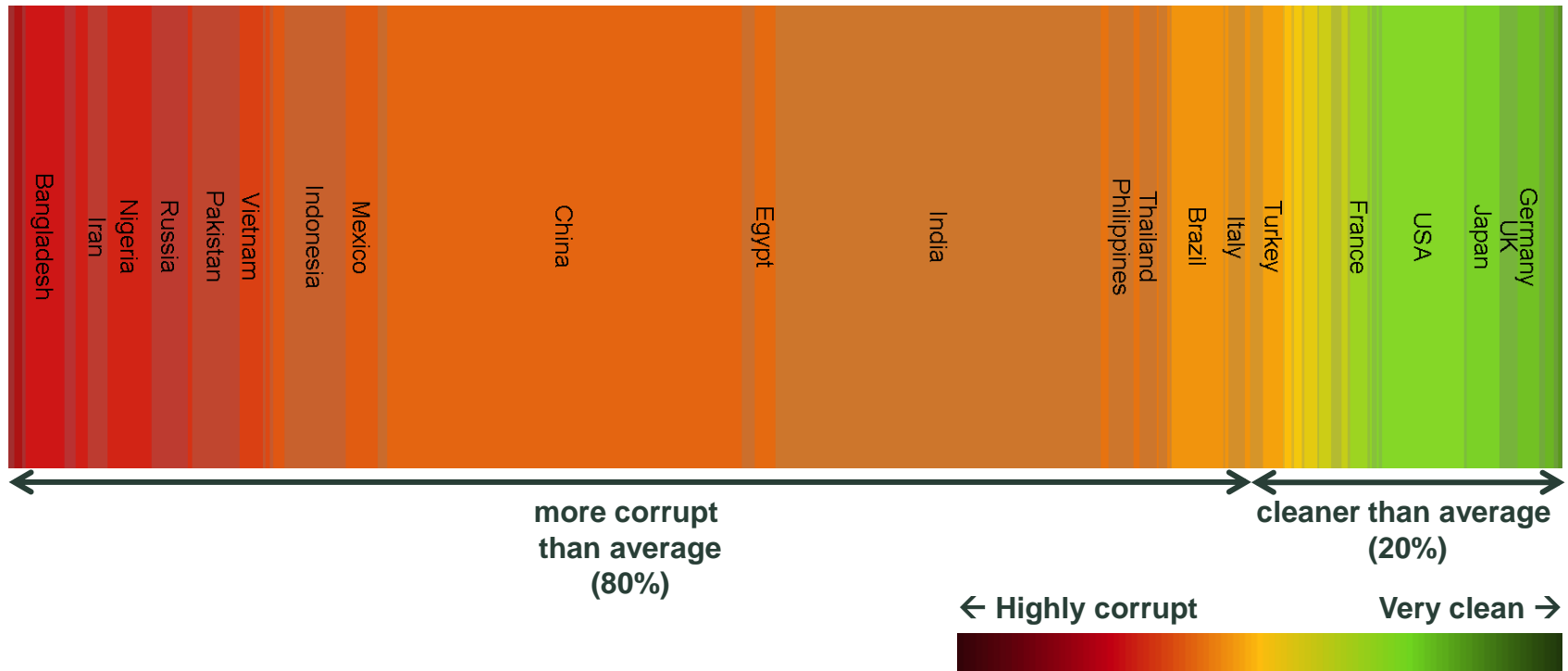
- 80% of the world population lives in countries ranked above average in terms of corruption exposure.



# Corruption: Corruption Perceptions Index



Weighted by population

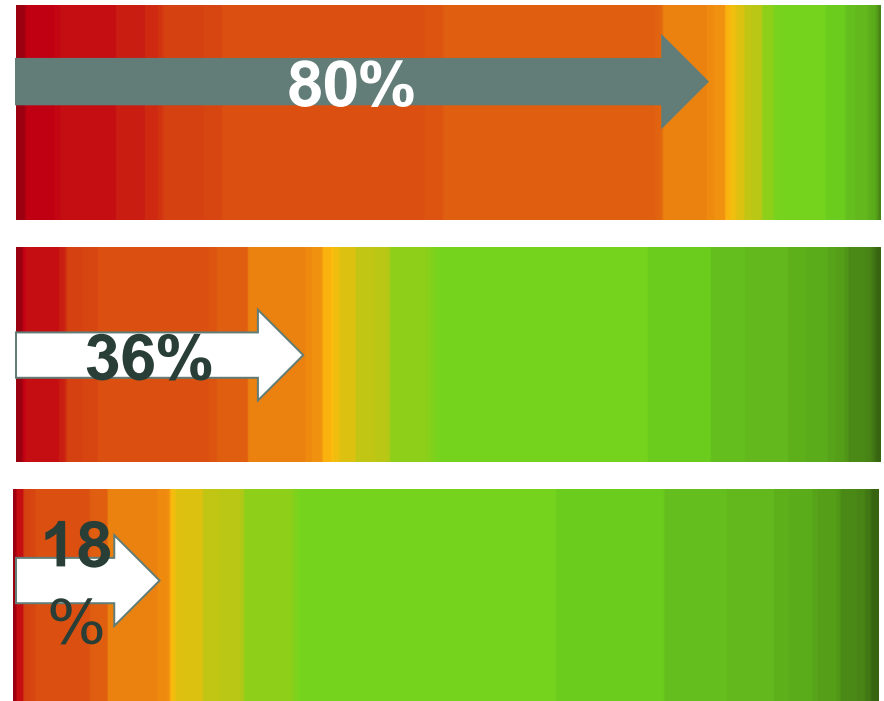


- High growth markets like China, India, Indonesia, Nigeria are highly exposed to corruption risks.

# Corruption: Population, GDP, insurance premium

Weighted by:

- Population
- GDP
- Insurance premium



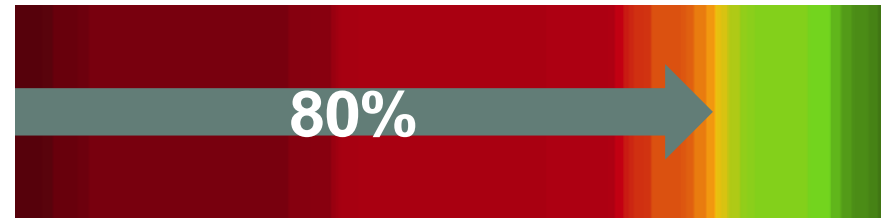
- 36 % of the global GDP are generated in countries with an above average exposure to corruption risks.
- Only 18% of global insurance premiums are exposed to these same countries.

Source: Swiss Re; World Bank; Corruption Perception Index 2014, Transparency International

# Human rights: Population, GDP, insurance premium

Weighted by:

- Population
- GDP
- Insurance premium

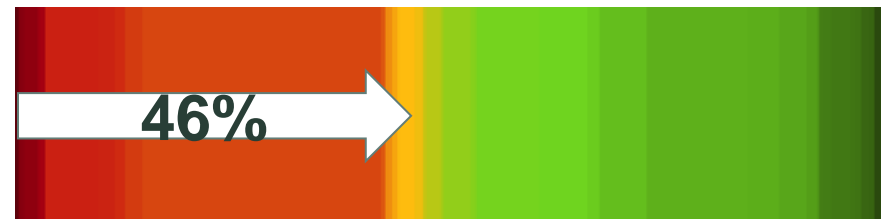
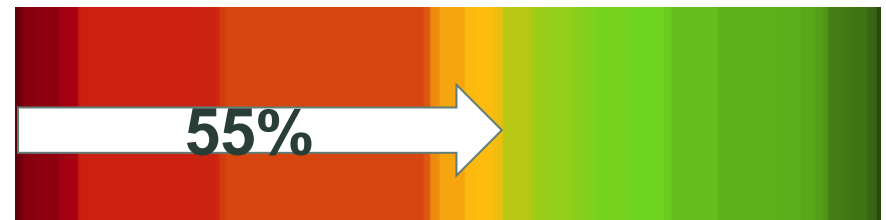
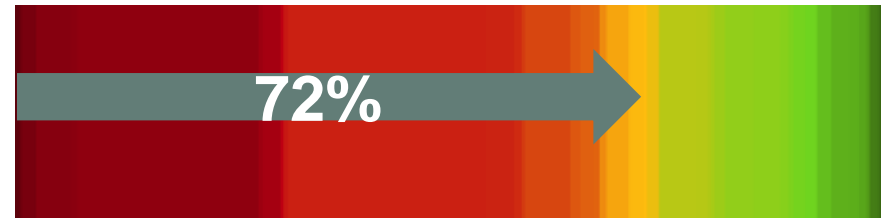


- Only 15% of global insurance premiums are exposed to countries with an above average exposure to human rights violations.

# Biodiversity loss: Population, GDP, insurance premium

Weighted by:

- Population
- GDP
- Insurance premium

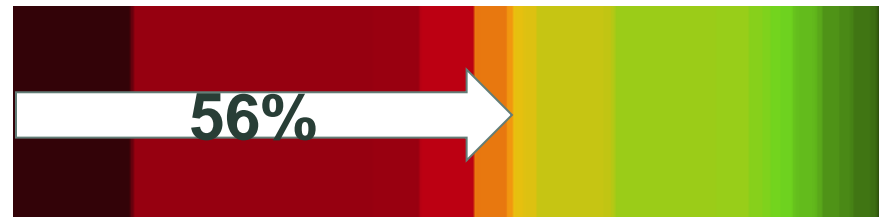
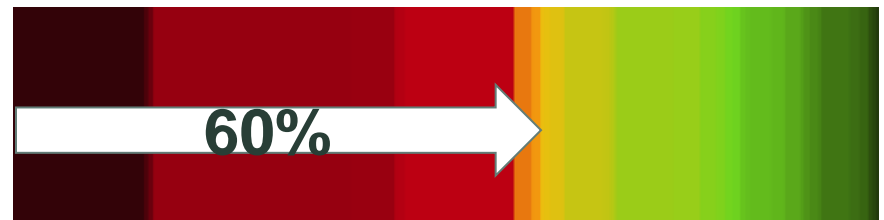


- 46% of global insurance premiums are exposed to countries with an above average exposure to biodiversity loss risks.

# Nitrogen cycle: Population, GDP, insurance premium

Weighted by:

- Population
- GDP
- Insurance premium



- 56% of global insurance premiums are exposed to countries with an above average exposure to nitrogen pollution.



# Greenhouse gas emissions: Population, GDP, premium

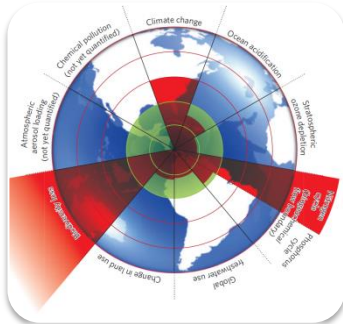
Weighted by:

- Population
- GDP
- Insurance premium



- 40% of global insurance premiums are exposed to countries with an above average contribution to greenhouse gas emissions.

# Insurance industry exposure to sustainability issues in comparison to GDP exposure



## Environmental

- Biodiversity loss
- Nitrogen cycle
- Climate change

medium link  
medium link  
strong link



## Social

- Human rights violations

weak link



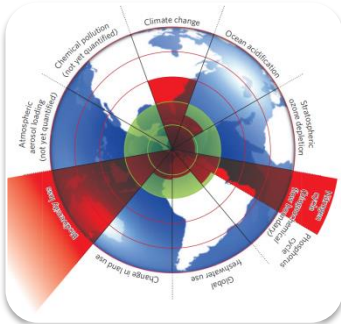
## Governance

- Corruption

weak link

growth

## Sustainability issues: Insurance industry link



### Environmental

- Biodiversity loss
- Nitrogen cycle
- Climate change

increasing  
~~medium link~~  
medium link  
decreasing  
~~strong link~~



### Social

- Human rights violations

increasing  
~~weak link~~



### Governance

- Corruption

increasing  
~~weak link~~

## Swiss Re conclusions

- Climate change is probably the most important sustainability topic for the insurance industry.
- Biodiversity loss, human rights and corruption risk exposure of the industry is increasing in line with growing premium income from high growth markets.
- Insurance companies in emerging markets may want to focus their sustainability activities more on biodiversity loss, human rights and corruption issues and on climate adaptation / resilience challenges.
- Insurance companies in mature markets may want to focus on climate change mitigation and adaptation.
- Global insurance companies should develop sustainability actions on all issues.

# Allianz's overview of sensitive business areas and examples of key environmental, social and governance (ESG) issues

Sensitive business areas	Examples of key issues from Allianz guidelines
<b>Agriculture</b>	<ul style="list-style-type: none"> <li>▪ Child labor</li> <li>▪ Inappropriate use of fertilizers, pesticides and other chemicals</li> <li>▪ Deforestation, illegal logging</li> <li>▪ Impact on protected sites and species</li> <li>▪ Physical commodity investments</li> </ul>
<b>Animal testing</b>	<ul style="list-style-type: none"> <li>▪ Unnecessary procedures and suffering</li> <li>▪ Poor care conditions</li> <li>▪ Use of great apes</li> </ul>
<b>Animal welfare</b>	<ul style="list-style-type: none"> <li>▪ Poor confinement and transportation conditions</li> <li>▪ Routine mutilation</li> <li>▪ Inappropriate use of chemicals and medicines</li> </ul>
<b>Betting &amp; gambling</b>	<ul style="list-style-type: none"> <li>▪ Crime and money laundering</li> <li>▪ Insufficient/no protection of vulnerable people</li> </ul>
<b>Clinical trials</b>	<ul style="list-style-type: none"> <li>▪ Participation of vulnerable people</li> <li>▪ Insufficient ethical and scientific reviews</li> <li>▪ Insufficient evidence of willing consent</li> </ul>
<b>Defense</b>	<ul style="list-style-type: none"> <li>▪ Violation of international conventions</li> <li>▪ Weapons to/in high-tension areas</li> </ul>
<b>Human rights</b>	<ul style="list-style-type: none"> <li>▪ Child/forced labor</li> <li>▪ Forced resettlement</li> <li>▪ Poor working conditions</li> </ul>



# Allianz's overview of sensitive business areas and examples of key environmental, social and governance (ESG) issues

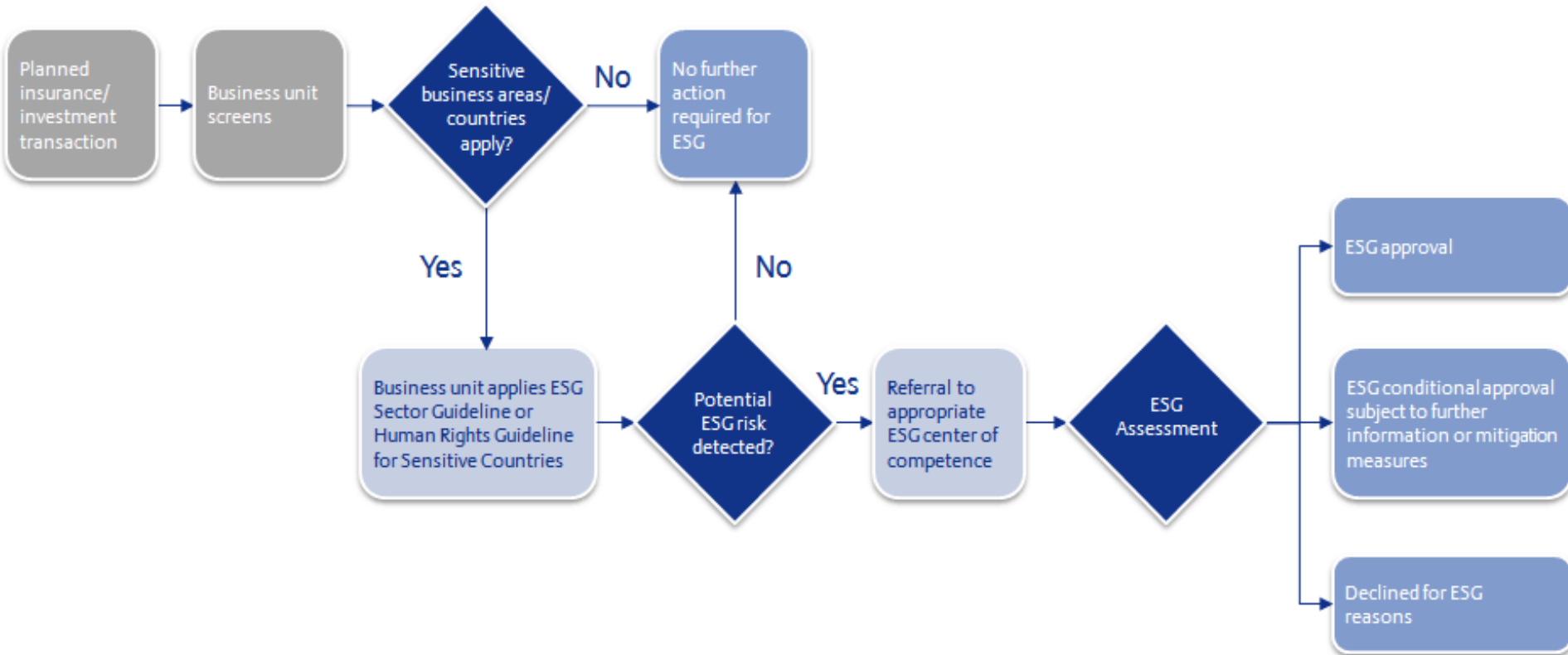
Sensitive business areas	Examples of key issues from Allianz guidelines
Hydroelectric power	<ul style="list-style-type: none"> <li>▪ Forced resettlement</li> <li>▪ Violation of land/water rights</li> <li>▪ Absent or inappropriate assessment and management of up/downstream impacts</li> </ul>
Infrastructure	<ul style="list-style-type: none"> <li>▪ Forced resettlement</li> <li>▪ Inappropriate management of water use and discharge</li> <li>▪ Poor working conditions</li> <li>▪ Anti-competitive behavior and corruption</li> </ul>
Mining	<ul style="list-style-type: none"> <li>▪ Forced resettlement</li> <li>▪ Insufficient health impact assessment and management</li> <li>▪ Impact on protected sites and species</li> <li>▪ Poor working conditions</li> </ul>
Nuclear energy	<ul style="list-style-type: none"> <li>▪ Insufficient waste management</li> <li>▪ No adherence to International Atomic Energy Agency (IAEA) standards</li> <li>▪ Exposure to natural catastrophes</li> <li>▪ No plans for decommissioning/end-of-life</li> </ul>
Oil & gas	<ul style="list-style-type: none"> <li>▪ Inappropriate spill management, response and remediation plans</li> <li>▪ Bribery and corruption</li> <li>▪ Activities in Polar regions, impact on protected areas/species</li> <li>▪ Absence of comprehensive environmental impact assessment</li> </ul>
Sex industry	<ul style="list-style-type: none"> <li>▪ Human trafficking</li> <li>▪ Child labor</li> <li>▪ Forced labor</li> </ul>

# Allianz screening process for environmental, social and governance (ESG) issues in insurance and investment transactions



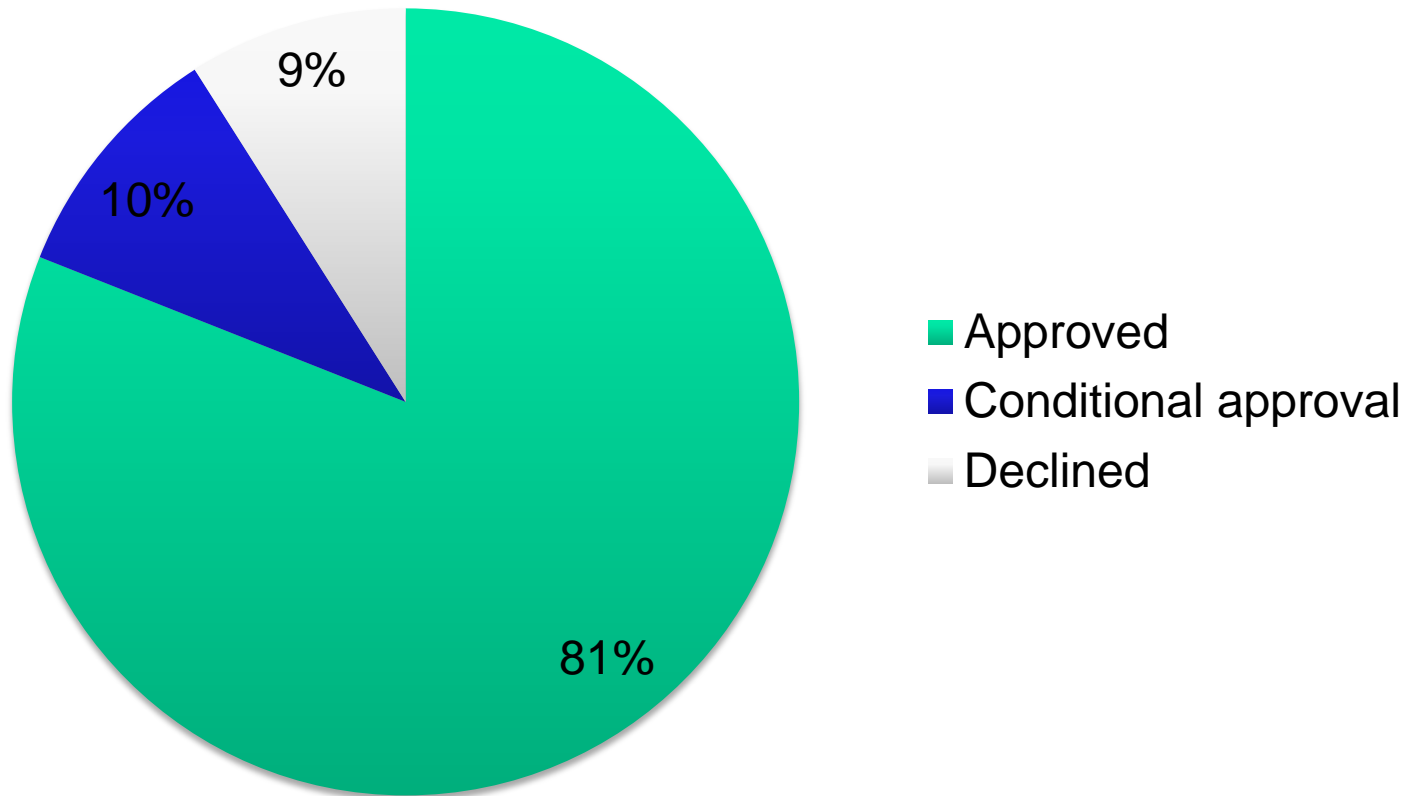
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# Allianz's 2014 key figures for business transactions assessed for environmental, social and governance (ESG) considerations

**150 business transactions reviewed for ESG considerations across sensitive business areas**



# Swiss Re's Sustainability Risk Framework spanning industry sectors and ESG issues



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## Policies:



Defence



Oil&gas



Mining



Animal test



Dams



Forestry



Nuclear



Environment  
Human Rights

## Components:

### Process:

- Sensitive Business Risk (SBR) central referral process
- Escalation process (Sust.Risk→CRO → EC)
- Policy related referral triggers integrated into underwriting tools

### Exclusions:

- Country exclusions
- Company exclusions

### Ratings:

- Sustainability
- Political risk
- Violence
- ...

## Resources:

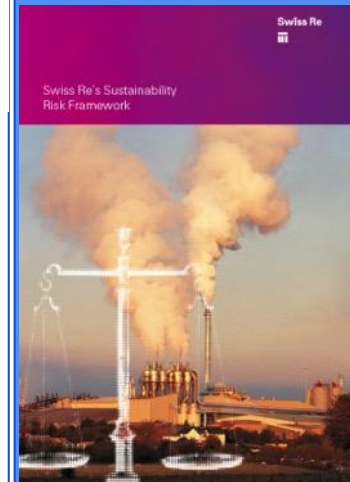
### Sustainability & Political Risk:

6 FTEs involved in SBR referrals handling

### Research providers:

- Company sustainability performance (MSCI IVA)
- Reputation risks (RepRisk, Sigwatch, MSCI, maplecroft)
- Trends monitoring (Ecofact, Swiss Re Knowledge & Records)

## History:



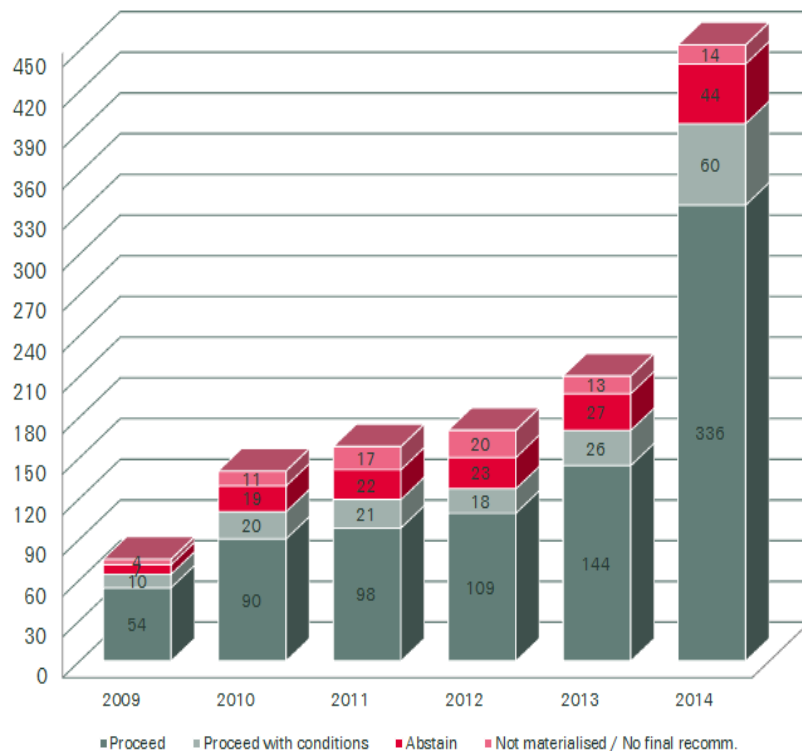
- Start: 2006
- Policy framework: since 2009

# Swiss Re witnessing a steady increase in sensitive business risk (SBR) referrals

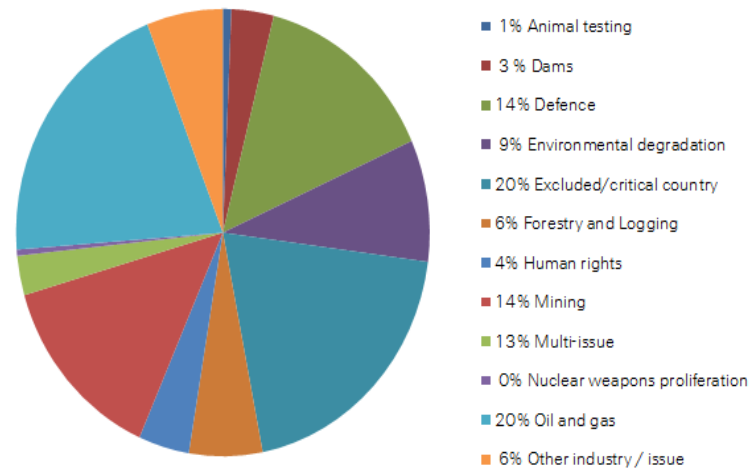


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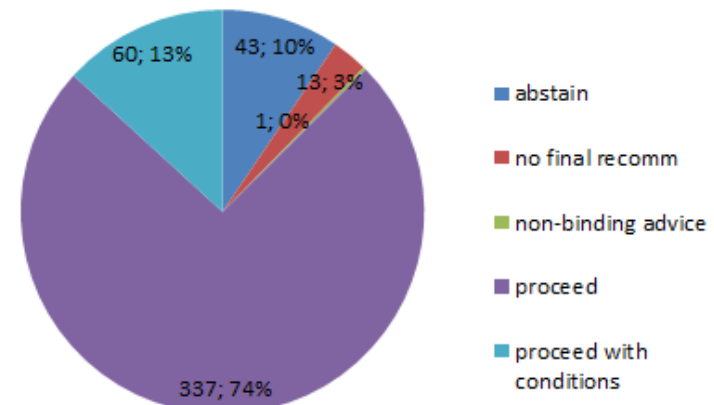
## SBR recommendations over time



## SBRs by sustainability issue in 2014



## SBRs by final decision in 2014





# Human rights violations: A key emerging risk for the insurance industry

## Examples of insurance industry links to potential human rights violations:

- Provision of global property insurance cover to a food and beverage company implicated in the use of child labour in its supply chain
- Provision of project construction insurance cover to a construction company implicated in forced resettlements of local communities or human trafficking
- Provision of directors' & officers' liability insurance cover to a mining company with operations implicated in inappropriate use of force to protect its facilities
- Holding shares in a clothing retailer implicated in the use of forced labour in its supply chain

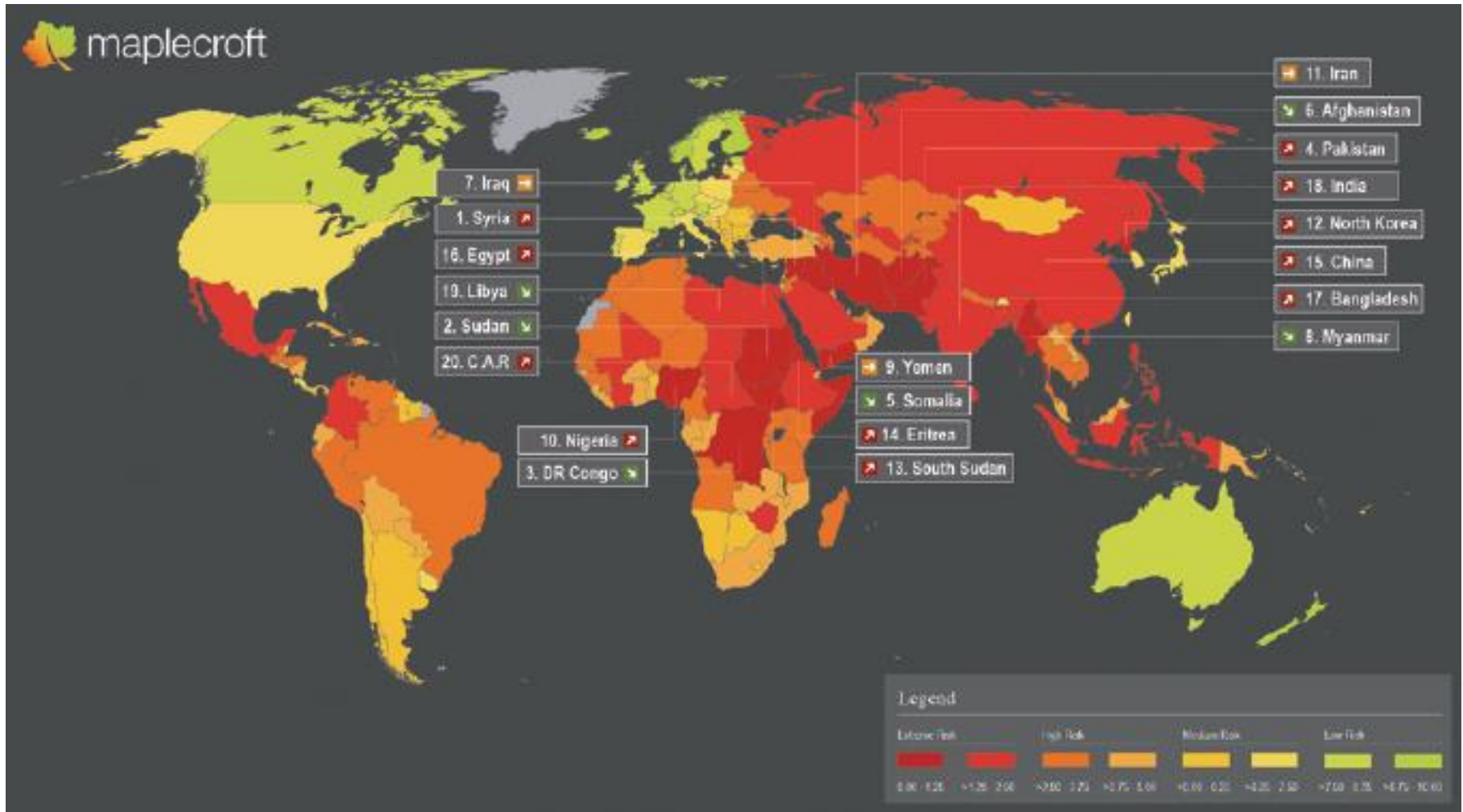
# Assessing human rights risk



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## Human Rights Risk Index 2014





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# Assessing human rights risk

Security forces and human rights vs. forecast growth outlook, with plot sized for indigenous peoples' rights

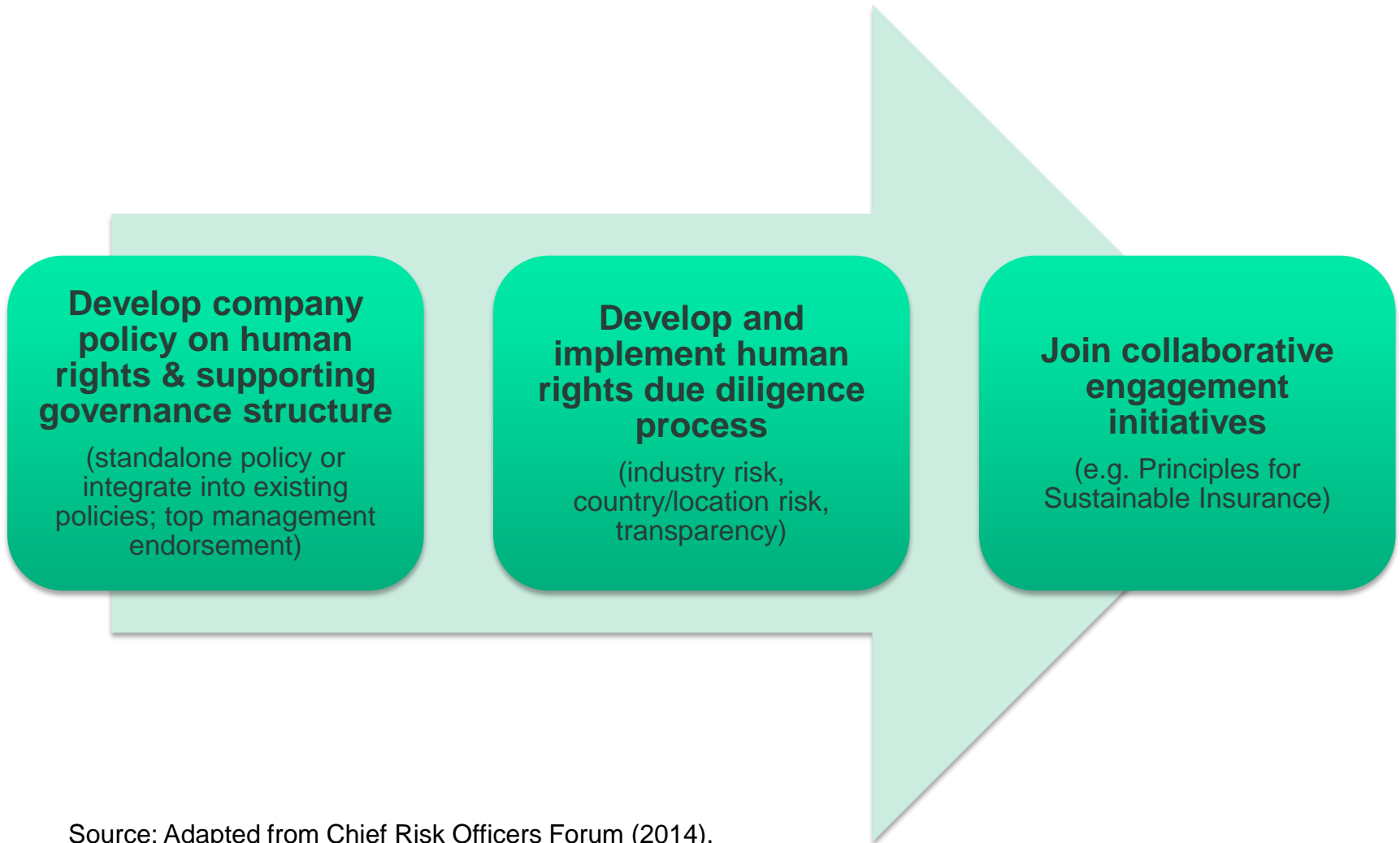


# Approaches to managing human rights risk in the context of the insurance industry



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Source: Adapted from Chief Risk Officers Forum (2014), Human rights and corporate insurance



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**[www.unepfi.org/psi](http://www.unepfi.org/psi)**