



UNEP Finance Initiatives

Climate Change Working Group

Position Paper

November 2001

1. OVERVIEW

- 1.1. We believe that the precautionary approach is the appropriate way to deal with climate change, in that it is not possible to quantify all the environmental, economic, and social effects before taking action to reduce greenhouse gas emissions. Research can reduce the uncertainty, but never completely eliminate it.ⁱ
- 1.2. The financial services sector is involved in all aspects of economic activity and is affected by environmental and social issues. Owing to its business skills - particularly in innovation - and its size (insurance premiums of USD 2.3 trillionⁱⁱ and operating income for banking of USD 1.7 trillionⁱⁱⁱ annually worldwide) the sector can play an important part in meeting the challenges posed by climate change.
- 1.3. The financial services sector strongly supports the Kyoto Protocol and strongly advocates that efforts be made to strengthen the process towards a long-term and effective framework to tackle climate change.

2. GENERAL POSITION

- 2.1. Climate Change poses major risks to the natural environment, and to society, in terms of damage to economic systems and human health, as reported in the Third Assessment Report of The Intergovernmental Panel on Climate Change (IPCC TAR). It is essential that early action is taken collectively to reduce these risks by:

?? Awareness raising	across all sectors and countries as the fundamental basis for initiating adaptation and mitigation.
?? Mitigation	reducing greenhouse gas emissions <i>now</i> .
?? Adaptation	taking steps to manage the effects of climate change as they impact society and natural systems
?? Research	defining the effects of climate change more precisely, and refining the technology and tools to deal with it.

- 2.2. The solutions which are adopted must be sustainable and equitable. For example, they should promote both existing and innovative energy solutions which ensure sustainable economic development in the future.
- 2.3. Harnessing the resources and skills of the private and public sectors together will provide the most effective answers to the problem of climate change.

3. FINANCIAL SERVICES AND CLIMATE CHANGE

- 3.1. The finance sector will be affected in several ways by climate change through altered risk profiles from its clients, and through government policy on mitigation and adaptation.
- 3.2. Banking faces considerable changes through the changing financial prospects of its clients, and more positively, from the demand for financial services e.g. project finance, to support mitigation and adaptation activities.

- 3.3. For insurance, the most obvious area of concern involves property losses, where in general risks to clients will become greater, and will be exaggerated by socio-economic trends, which are producing greater concentrations of vulnerable assets in risk prone areas.
- 3.4. Institutional investors, and in particular, life insurance companies and pension funds invest widely and aim to provide a long-term return for their beneficiaries. Since climate change could affect economic and social stability, investments would be affected through unanticipated changes in risk. Also, the financial prospects and risk/return characteristics of certain industries that are large greenhouse gas emitters may be affected and this must be taken into account by investors.
- 3.5. Policies to reduce greenhouse gas concentrations, and to manage the impacts of climate change, will inevitably entail the supply of financial services, in terms of insurance, credit and investment. At present the partial completion of the political framework for market mechanisms is hampering progress, but financial institutions are already participating in pilot schemes.
- 3.6. The sector is a major economic activity in its own right and needs to play its part in adopting sustainable practices internally, e.g. through energy conservation measures in its extensive portfolio of real estate.

4. A MULTIPLE-STRATEGY APPROACH

- 4.1. Governments, singly and collectively through the United Nations Framework Convention on Climate Change (UNFCCC), should adopt four strategies to tackle climate change, and involve all stakeholders in developing and implementing them. The four strategies are:
 - 4.1.1. Implement the Kyoto process as a small but important first step in dealing with the problem of emissions internationally. This will allow all stakeholders to gain practical experience quickly.
 - 4.1.2. Develop a range of policies and measures for implementation in national and regional jurisdictions, using a minimum of regulation to harness market mechanisms.
 - 4.1.3. Construct a long-term framework to reduce emissions globally in order to achieve the necessary transition to sustainability. The approach of *Contraction and Convergence*, which the IPCC TAR described as "the logical conclusion" of a rights-based approach, provides a possible example of such a basis.
 - 4.1.4. Promote a strong code of corporate sustainability, for business and the government sector, underpinned by the availability of key information on environmental, social and economic performance.

5. THE KYOTO PROTOCOL MECHANISMS

- 5.1. The Clean Development Mechanism is a valuable medium for adaptation and mitigation within the wider context of sustainable development. Adaptation has been largely ignored but could be instrumental in giving less-developed countries access to financial services in innovative ways, as suggested by the IPCC TAR. UNFCCC should initiate some pilot activity in the area of hazard management. Mitigation projects are closer to conventional business activity, and UNEP FI members are already active in this area.
- 5.2. Joint Implementation projects also are close to conventional activity, and the financial services sector is already participating in exploratory work here.
- 5.3. Emissions Trading is a useful step in achieving the transition to a sustainable economy. However, there are still major uncertainties in the modalities of the trading system. Once the rules become clear, it could become an attractive market for financial services. Trading systems within nations or trading blocs present much fewer problems, and may be an appropriate way to commence.
- 5.4. It is important that the modalities of the Kyoto Protocol Flexible Mechanisms are sufficiently streamlined and transparent to allow the financial sector – and broader business - to be fully engaged and to play their intended roles in emission reductions.

6. TOWARDS SUSTAINABILITY

- 6.1. Stopping human induced climate change requires a transition to a low carbon economy, with the emphasis on energy efficiency and renewable energy. The financial sector is willing and able to support this change, and is already active in pilot schemes. However, such activities are often placed at a competitive disadvantage by conventional infrastructure, market, fiscal and regulatory systems. Progress would be greatly enhanced by political action to provide more supportive market structures and a long-term plan towards a sustainable energy economy.

7. ACTIONS TO DATE BY UNEP FI MEMBERS

UNEP FI members have:

- 7.1. Developed standards for corporate reporting of CO₂ emissions^{iv}, which are in the process of being adopted by many other bodies.
- 7.2. Participated in pilot projects to refine the modalities of the Kyoto Protocol flexible mechanisms^v.
- 7.3. Advised and supported companies as they assessed and reported their greenhouse gas emissions and encouraged companies to integrate responses to climate change - comprehensively - into their corporate strategy.
- 7.4. Financed alternative energy technology ventures that significantly reduce greenhouse gas emissions.
- 7.5. Developed standards for environmental management systems (EMS) in their sector and taken a leadership position in their implementation.
- 7.6. Traded green electricity certificates in order to achieve CO₂ emission reduction targets^{vi}.
- 7.7. Participated in the IPCC process, notably in the chapters on financial services^{vii}.
- 7.8. Taken part in a large number of events to raise climate change awareness in the sector and among other stakeholders and to commence the process of translating the theory of mitigation and adaptation solutions into accepted practice.
- 7.9. Worked with stakeholders to manage natural hazards - likely to be affected by global climate change - through research, planning and the provision of relevant financial services for operational schemes in the private and public sector.

This paper has been discussed and approved for publication by members of the UNEP Finance Initiatives as a contribution to the climate change debate. It does not claim to represent the unanimous view of all members of the Initiative nor does it represent a UNEP position.

For further information on the UNEP FI's Climate Change Working Group visit Unepfi.net/cc

ⁱ "...the overwhelming majority of scientific experts, whilst recognizing that scientific uncertainties exist, nonetheless believe that human-induced climate change is already occurring and that future change is inevitable. It is not a question of whether the Earth's climate will change, but rather by how much, how fast and where." Robert T. Watson, Chair, IPCC, 2001.

ⁱⁱ Swiss Re, Sigma 9/2000, World insurance in 1999, Soaring life insurance business

ⁱⁱⁱ UBS AG, Group Research, Zurich; 2001

^{iv} The GHG Indicator: UNEP Guidelines for Calculating Greenhouse Gas Emissions for Businesses and Non-Commercial Organisations, Charles Thomas, Tessa Tennant and Jon Rolls, UNEP 2000

^v E.g. preparation of financing concepts tailored to the requirements of the customers, creating alternative climate/carbon funds and CDM project financing within CAF's Latin American Carbon Program.

^{vi} E.g. Dresdner Bank

^{vii} Climate Change 2001: Impacts, Adaptation, and Vulnerability, IPCC Third Assessment Report, Technical Summary, A Report of Working Group 2, K.S. White, et al., chapter. 4.6, and Climate Change 1995: Impacts, Adaptations and Mitigation of Climate Change: Scientific-Technical Analyses, Contribution of Working Group II to the Second Assessment of the Intergovernmental Panel on Climate Change, R.T. Watson, et al.