PSI
Principles for Sustainable Insurance

A global sustainability framework and initiative of the United Nations Environment Programme Finance Initiative

Harnessing the full potential of the insurance industry in disaster risk management

An insurance industry commitment in support of the process to develop the Post-2015 Framework for Disaster Risk Reduction

1 The insurance industry and disaster risk management

The insurance industry's core business is to understand, manage and carry risk. Through risk prevention and risk reduction and by sharing risks over many shoulders, the insurance industry helps protect society, fosters innovation and underpins economic development. As risk managers, risk carriers and investors, the insurance industry has a vital interest and plays an important role in fostering sustainable economic and social development.[1]

The risk management process in insurance spans a continuum of activity—from identifying, assessing, preventing and reducing risk—to pricing, carrying and diversifying risk. When unexpected losses arise, insurance helps communities cope with the financial hardship associated with them.

The risk management process in insurance mirrors the continuum of activity in disaster risk management—from understanding, assessing preventing and reducing disaster risk—to disaster response and relief, disaster recovery, and disaster risk financing.

For this reason, the insurance industry is actively involved in managing disaster risk, whether it stems from natural hazards (e.g. cyclones, earthquakes, floods, droughts), biological hazards (e.g. epidemics, animal and insect infestation) or technological hazards (e.g. industrial pollution, factory explosions, transport accidents). This includes disaster risk from a combination of hazards (e.g. natural and technological hazards).

2 Insurers play a key role across the disaster risk management continuum[2]

The insurance industry plays a critical role in providing financial protection and security to at-risk communities to support, and preserve the gains of, social and economic development.

In 2013, global economic losses due to natural disasters amounted to USD 131 billion, which represents almost 2% of GDP, with USD 37 billion of these losses being insured.

The insurance industry is finding new ways to respond to the diverse needs of individuals, government and commercial enterprise.

1 Principles for Sustainable Insurance (2012), UNEP FI / See www.unepfi.org/psi

2 The Principles for Sustainable Insurance Global Resilience Project: Building disaster-resilient communities and economies (2014), UNEP FI
See www.unepfi.org/psi/building-disaster-resilient-communities-and-economies

For example, microinsurance provides protection to low-income communities by insuring their crops, livestock and assets, and extends to accident, health, life and funeral insurance. As part of a business continuity plan, business interruption insurance provides protection for the consequential loss of revenue when disaster strikes.

Catastrophe insurance pools and index-based insurance solutions can facilitate the coverage of disaster risk in highly-exposed and vulnerable communities. Insurance-linked securities, such as catastrophe bonds, can bring alternative capital to cover disaster risk.

Governments and the insurance industry have set up public-private partnerships to establish social protection systems at national and regional levels which incorporate insurance mechanisms to increase disaster resilience.

However, the insurance industry's contribution to managing disaster risk extends well beyond the losses it pays out.

- Insurers help communities reduce disaster risk through risk research, models, analytics, tools and metrics, as well as advocacy and support at the local level. These efforts produce practical outputs such as corporate and municipal business continuity plans, supply chain management protocols, community-level hazard maps, evacuation procedures, and educational materials and awareness campaigns that promote disaster risk reduction.
- Insurers are in the business of understanding, managing and carrying risk. Their expertise looks back—leveraging aggregated data from past events—as well as forward—modelling exposure in an evolving risk landscape. Insurance pricing and other policy terms and conditions can provide clear risk signals and reward risk reduction efforts.
- Insurers live in the communities they serve and experience disasters first hand, as well as their adverse consequences. When disaster strikes, insurers help communities recover from the economic and social impact of events. Insurers mobilise their own resources and those of their supply chain partners to respond to the losses suffered by their customers.

The insurance industry's experience tells us that disasters are becoming more frequent and more severe. Together with higher exposure through population growth and urbanisation, this is expected to result in a significant increase in losses over coming decades.

Risk sharing and risk transfer mechanisms such as insurance will be important in helping communities and economies meet these threats. However, communities must also better protect themselves, reduce avoidable loss and build resilience to cope with events that arise.

And it's simple economic common sense. It is estimated that every dollar spent in disaster risk reduction returns between two and ten dollars in recovery savings.

More investment in disaster risk reduction will lead to:

- Less economic, social and environmental losses
- Safer and more 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

Finally, insurers are institutional investors. Globally, the insurance industry has nearly USD 27 trillion in assets under management.[3]

As with their insurance portfolios, disaster risk is material to the investment portfolios of insurers. It is important to assess the impacts of disasters on investments and the level of disaster risk generated by investments, as well as how to make investments disaster-resilient.

In this context, insurers and other institutional investors (e.g. pension funds, government reserve funds, foundations, investment management companies) that have adopted the Principles for Responsible Investment[4] are integrating environmental, social and governance issues into investment decision-making and ownership practices across asset classes. This is based on the understanding that these issues, including disaster risk, form part of a full spectrum of risks and opportunities that may influence the performance of investment portfolios.

3 Harnessing the full potential of the insurance industry in disaster risk management

Disaster risks intersect with a wide range of environmental, social and governance risks, including but not limited to climate change risks. Disaster resilience protects hard-won development gains and supports the economic, social and environmental dimensions of sustainable development.[5] Therefore, disaster resilience is an integral component of sustainability.

The role of the insurance industry in disaster risk management—including climate change risk management[6]—and as part of the broader sustainable development agenda—is increasingly being reflected in global insurance industry initiatives, principles and statements such as:

- The United Nations-backed Principles for Sustainable Insurance[7]
- The ClimateWise Principles[8]
- The Global Insurance Industry Statement—“Building climate and disaster-resilient communities and economies: How the insurance industry and governments can work together more effectively”—of ClimateWise, Munich Climate Insurance Initiative and UNEP Finance Initiative[9]
- The Global Insurance Industry Statement—“Adapting to climate change in developing countries”—of ClimateWise, Munich Climate Insurance Initiative, The Geneva Association and UNEP Finance Initiative[10]
- The Climate Risk Statement of The Geneva Association[11]

3 Fund management (2013), TheCityUK
4 See: www.unpri.org
5 The Principles for Sustainable Insurance Global Resilience Project: Building disaster-resilient communities and economies (2014), UNEP FI See www.unepfi.org/psi/building-disaster-resilient-communities-and-economies
6 In the context of both climate change adaptation and mitigation
7 See www.unepfi.org/psi
8 See www.climatewise.org.uk
9 See www.unepfi.org/fileadmin/documents/2013_global_insurance_industry_statement.pdf
10 See www.unepfi.org/fileadmin/documents/insurance_climatechange_statement.pdf
11 See www.genevaassociation.org/media/878686/ga2014-climate-risk-statement.pdf

PSI
Principles for Sustainable Insurance

To harness the full potential of the insurance industry in disaster risk management, the following processes and roles must be fully understood and recognised by the insurance industry and by its stakeholders, including governments, regulators, the wider business community, the academic and scientific community, and civil society:

- The disaster risk management continuum—from understanding, assessing, preventing and reducing disaster risk—to disaster response and relief, disaster recovery, and disaster risk financing
- The role of insurance—as a financial risk management instrument—in disaster risk financing, which is one activity in the disaster risk management continuum
- The role of insurers—as risk managers and risk carriers—across the disaster risk management continuum
- The role of insurers—as investors—across the disaster risk management continuum

Thus, we commit to discussing these four points within the insurance industry and with its stakeholders between now and 2015, and to mobilise support for the aims of this document from more institutions en route to the 3rd UN World Conference on Disaster Risk Reduction in 2015.

The intergovernmental process to develop the Post-2015 Framework for Disaster Risk Reduction offers an unprecedented opportunity to recognise and harness the full potential in disaster risk management of the many industry sectors that make up the private sector—including the insurance industry—in support of the global resilience and sustainability imperative.

This document was published in July 2014.

For more information on the aims of this document, please contact:

Alice Steenland
Vice President, Group Corporate Responsibility, AXA Group
alice.steenland@axa.com
+33 1 40 75 49 55

Catherine Boiteux-Pelletier
Senior Advisor, Group Corporate Responsibility, AXA Group
catherine.boiteux@axa.com
+33 1 40 75 46 54

Butch Bacani
Programme Leader, UNEP FI Principles for Sustainable Insurance Initiative
butch.bacani@unep.org
+41 22 917 8777

This document was designed by Rebus, Paris, courtesy of AXA

About the UNEP FI Principles for Sustainable Insurance Initiative (PSI Initiative)

Launched at the 2012 UN Conference on Sustainable Development, the UNEP FI Principles for Sustainable Insurance serve as a global framework for the insurance industry to address environmental, social and governance risks and opportunities.

Endorsed by the UN Secretary-General, the Principles have led to the largest collaborative initiative between the UN and the insurance industry—the PSI Initiative. As of July 2014, 70 organisations have adopted the Principles, including insurers representing approximately 15% of world premium volume and USD 8 trillion in assets under management. The Principles are part of the insurance industry criteria of the Dow Jones Sustainability Indices and FTSE4Good.

The vision of the PSI Initiative is of a risk aware world, where the insurance industry is trusted and plays its full role in enabling a healthy, safe, resilient and sustainable society. The purpose of the PSI Initiative is to better understand, prevent and reduce environmental, social and governance risks, and better manage opportunities to provide quality and reliable risk protection.

Learn more at www.unepfi.org/psi

For more information, please contact psi@unepfi.org

UNEP Finance Initiative