Working Group:
Climate Change and the Financial Sector

Position Paper

COP7 to the UNFCCC, Marrakech, 2001

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The PURPOSE of this presentation

1) Introduce **UNEP Finance Initiatives** and its **Climate Change Working Group**

2) Present our **Position Paper** on Climate Change and highlight its key messages
Great Natural Disasters 1950 – 2000
Economic and insured losses with trends

Source: Munich Reinsurance
### Great Weather Disasters 1950 - 2000

#### Decade comparison

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<tbody>
<tr>
<td><strong>Number</strong></td>
<td>13</td>
<td>16</td>
<td>29</td>
<td>44</td>
<td>72</td>
<td>69</td>
<td>4.3</td>
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<td><strong>Economic losses</strong></td>
<td>39.8</td>
<td>52.3</td>
<td>76.7</td>
<td>121.8</td>
<td>410.0</td>
<td>383.0</td>
<td>7.3</td>
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<td><strong>Insured losses</strong></td>
<td>0</td>
<td>6.9</td>
<td>11.1</td>
<td>22.2</td>
<td>95.2</td>
<td>81.1</td>
<td>11.7</td>
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Losses in US$ billion - 2000 values

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Insurance industry is prepared for increasing losses

- Adequate pricing
- Substantial deductibles, based on the respective exposure
- Loss prevention
- Accumulation control
- Liability limits
- Reinsurance, retrocession
- Improved claims settlement
- Exclusion of certain hazards
- Exclusion of particularly exposed areas
Financial Institution Initiative (FII) was founded in 1992

Insurance Industry Initiative (III) was founded in 1995

Signatories commit to the integration of environmental considerations into all aspects of their operations.

Signed by 179 banks, 84 insurers and 5 associate members (as of May 2001)
UNEP FI Climate Change Working Group

12 Members: Swiss Reinsurance, Corporacion Andina de Fomento (CAF); SAM Sustainability Group; UBS AG; LPC Centre for Risk Sciences; Citigroup; Gerling Group; Munich Reinsurance; CGNU plc; Andlug Consulting; Dresdner Bank; AG Prudential

One of UNEP FI’s Three Core Working Groups
Climate Change Position Paper

OVERVIEW

• Precautionary Approach is the appropriate way to address climate change.

• The Financial Services Sector can play an important role in meeting climate change challenges

• Financial sector supports the Kyoto Protocol and advocates a long-term and effective framework
GENERAL POSITION

*Climate change poses major risks* to the natural environment and to society

*Early action to be taken to reduce these risks:*

- **Awareness raising** must continue as the fundamental basis for initiating adaptation and mitigation
- **Mitigation** reducing greenhouse gas emissions *now*
- **Adaptation** to manage the effects of climate change
- **Research** defining the effects of climate change more precisely, and refining the technology and tools

Sustainable and equitable solutions that draw on the resources and skills of the public and private sector
The financial services sector will be affected by climate change

Banking, Insurance and Asset Management face challenges and opportunities:

- altered risk profiles of clients
- products and services for adaptation and mitigation, but delayed by only partial completion of political framework
- property losses by natural perils
- changing government policy, changing investment risks
- implementation of corporate environmental management
Encourage governments to adopt a multiple-strategy approach

Operationalise the Kyoto process as a small but important first step.

Develop and implement Kyoto – using a minimum of regulation to harness the power of the market.

Construct a long term framework – on the basis of *Contraction and Convergence* for example.

Promote a strong code of corporate sustainability.
KYOTO Protocol Mechanisms

Clean Development Mechanisms
Valuable medium for adaptation and mitigation within the wider context of sustainable development

Joint Implementation
Good fit with current financial practise. Finance sector is already participating actively in this area

Emissions Trading
Modalities are uncertain. With clear rules, it could become an attractive market for financial services
Towards Sustainability

Transition to a low carbon economy, with emphasis on energy efficiency and renewable energy

Financial sector is willing and able to support this change

A supportive market structures and a long-term regulatory framework is needed

Kyoto Protocol is only the first step towards a sustainable energy economy
Some Actions to date by UNEP FI Members

- Developed standard for corporate CO\textsubscript{2} emission reporting
- Participated in pilot projects to refine modalities of Kyoto flexible mechanisms
- Advised and supported companies as they assess their GHG emissions
- Financed alternative energy ventures
- Developed standards for environmental management systems in the financial sector
- Contributions to IPCC Reports
- Awareness raising
UNEP Finance Initiatives  
Climate Change Position Paper

- precautionary approach to address climate change
- support of the Kyoto Protocol, but
- a long-term and effective framework is needed
- awareness raising, mitigation, adaptation and research needed to reduce risks of climate change
- climate change means risks and opportunities to the financial sector
- UNEP Finance Initiatives are willing to support the change towards a sustainable energy economy