

Understanding the links: Insurance regulation and sustainable development

A global consultation by the UNEP FI Principles for Sustainable Insurance Initiative and the UNEP Inquiry into the Design of a Sustainable Financial System

1. The insurance industry and sustainable development

Sustainable development is “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”¹ It has three interlocking and mutually reinforcing dimensions—economic, social and environmental sustainability. Furthermore, each of these dimensions has a governance dimension.

The convergence of environmental, social and governance (ESG) issues that have economic implications and undermine sustainable development is posing a shared risk to the insurance² industry, business, government and society at large.

Examples of ESG issues—or sustainable development issues—include climate change and extreme weather events, increasing vulnerability to natural disasters, natural resource degradation, water scarcity, environmental pollution, lack of access to insurance, widening social inequality, human rights, labour standards, ageing populations, emerging health risks, trust and reputation issues, lack of accountability and transparency, and unfair treatment of customers.

In turn, this shared risk provides a strong incentive for innovation and collaboration.

Through the United Nations-backed Principles for Sustainable Insurance, insurers representing approximately 15% of world premium volume and USD 8 trillion in assets under management have a shared view that:

“Our world is facing increasing environmental, social and governance (ESG) challenges. This changing risk landscape is leading to diverse, interconnected and complex risks, and presents new opportunities. Accordingly, we believe it is prudent for the insurance industry to adjust the range of risk factors considered in managing its business. ESG issues are increasingly influencing traditional risk factors and can have a significant impact on the industry’s viability. Therefore, a resilient insurance industry depends on holistic and far-sighted risk management in which ESG issues are considered.”³

These insurers have the common aspiration “that better management of ESG issues will strengthen the insurance industry’s contribution to building a resilient, inclusive and sustainable society.

¹ Our common future (1987), UN World Commission on Environment and Development

² Insurance refers to the business of insurers and reinsurers

³ Principles for Sustainable Insurance (2012), UNEP FI / See www.unepfi.org/psi

However, many ESG issues are too big and complex and need widespread action across society, innovation and long-term solutions. Therefore, it is our aspiration to build on the foundation the insurance industry has laid in supporting a sustainable society. The future we want is a society in which people are aligned and incentivised to adopt sustainable practices. To realise this aim, we will use our intellectual, operational and capital capacities to implement the Principles for Sustainable Insurance across our spheres of influence, subject to applicable laws, rules and regulations and duties owed to shareholders and policyholders.”⁴

Moreover, these insurers have committed to dialogue with governments, regulators and other policymakers, for example, “to support prudential policy, regulatory and legal frameworks that enable risk reduction, innovation and better management of ESG issues.”⁵

With sustainable development issues increasingly on the agenda of insurers, business, government and civil society, one of the key questions is to understand the links between insurance regulation⁶ and sustainable development.

2. Purpose of the global consultation

The UNEP FI Principles for Sustainable Insurance Initiative (PSI Initiative) and the UNEP Inquiry into the Design of a Sustainable System (UNEP Inquiry) (see Appendix for more information on these two initiatives) are jointly carrying out a global consultation to better understand the links between insurance regulation and sustainable development.

Announced at the inaugural PSI market event in London in June 2014, these pioneering consultation meetings on insurance regulation and sustainable development will take place until February 2015. There will be a series of meetings in different jurisdictions around the world, across developed and developing regions.

These meetings will convene insurance regulatory bodies, insurance companies, insurance associations and insurance industry stakeholders such as governmental, multilateral and non-governmental organisations, business and industry associations, and academic and scientific organisations.

From this global consultation would emerge a strategic approach on how the “rules of the game” that govern the insurance industry—norms, policies, principles, regulations, incentives and standards—could better support sustainable development.

One of the concrete outputs would be a joint PSI Initiative-UNEP Inquiry synthesis document that captures key inputs and insights obtained via the global consultation. This synthesis document would serve as the insurance industry pillar of the UNEP Inquiry’s final report in 2015, which would span the financial system, including banking, insurance, investment and securities.

⁴ Principles for Sustainable Insurance (2012), UNEP FI / See: www.unepfi.org/psi

⁵ Ibid

⁶ In this document, insurance regulation refers to both insurance regulation and supervision, and insurance regulators refers to both insurance regulators and supervisors

The UNEP Inquiry's final report aims to advance policy options that would deliver a step change in the financial system's effectiveness in mobilising capital towards a sustainable economy.

Moreover, the global consultation will help lay the foundation for the PSI Initiative to continue and deepen the dialogue with insurance regulators, governments and other key stakeholders on sustainable development issues beyond 2015.

This is in line with the aims of the Principles for Sustainable Insurance, particularly 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."

3. Target participants

Insurance regulatory bodies

- Insurance Commissioners, Deputy Insurance Commissioners, CEOs and other senior executives of insurance regulatory associations, other senior regulatory officials

Insurance companies

- CEOs and other senior executives who can best contribute to the consultation (for example, Chief Operations Officers, Chief Underwriting Officers, Chief Risk Officers, Chief Investment Officers, Chief Strategy Officers, Chief Corporate Governance Officers, Chief Legal and Compliance Officers, Heads of Government and Regulatory Affairs, Heads of Sustainability and Corporate Responsibility)

Insurance industry stakeholders (for example, governmental, multilateral and non-governmental organisations, business and industry associations, and academic and scientific organisations)

- CEOs and other senior executives who can best contribute to the consultation

4. Key questions for the global consultation

Current priorities and practice

1. What are the critical sustainable development risks and opportunities facing the insurance industry [in your country] for the next 5 and 10 years? How are these impacting the business outlook and competitiveness of the insurance industry?
2. How are insurance regulators responding to the environmental, social and governance (ESG) dimensions of sustainable development?

What are examples of insurance regulatory action in the following areas?

- Environmental issues – For example, climate change mitigation and adaptation, increasing vulnerability to natural disasters, natural resource degradation, water scarcity, environmental pollution

- Social issues – For example, lack of access to insurance, widening social inequality, human rights, labour standards, ageing populations, emerging health risks
 - Governance issues – For example, trust and reputation issues, lack of accountability and transparency, unfair treatment of customers
3. How are insurance regulators balancing priorities associated with on-going insurance regulatory reforms and long-term sustainable development objectives?

Delivering an integrated approach

4. What changes are needed to make sure that there is coherence between insurance policy and regulation and sustainable development in order to avoid unintended consequences?
5. How can the ESG dimensions of sustainable development best be embedded in fundamental insurance regulatory frameworks (for example, the Insurance Core Principles of the International Association of Insurance Supervisors⁷)?
6. How can the ESG dimensions of sustainable development best be embedded in the mandates and objectives of national/state insurance regulators?

Opportunities for innovation

7. How can insurance regulation enable insurers to better understand, prevent and reduce ESG risks (for example, the risks associated with ESG issues under item 2 above)?
8. How can insurance regulation enable insurers to better manage opportunities to provide quality and reliable risk management services and insurance products that promote sustainable development (for example, products and services for renewable energy, resource-efficient buildings and transportation, low-income communities, ageing populations)?
9. How can insurance regulation enable insurers to harness their full potential in disaster risk management—from understanding, assessing preventing and reducing disaster risk—to disaster response and relief, disaster recovery, disaster risk financing, and disaster risk-sensitive investments?⁸
10. How can insurance regulation enable insurer allocations to investments that promote sustainable development (for example, renewable energy, sustainable agriculture and forestry, healthcare, waste management, inclusive finance, sustainable water management, and climate and disaster-resilient infrastructure)?

Opportunities for collaboration

11. How can insurance regulators and insurers work together more effectively to promote the integration of sustainable development into policy and regulation?
12. How can insurance regulators and insurers work together more effectively with insurance industry stakeholders to promote the integration of sustainable development into policy and regulation?

⁷ See: www.iaisweb.org/Supervisory-Material/Insurance-Core-Principles-795

⁸ For example, see: Harnessing the full potential of the insurance industry in disaster risk management (2014), UNEP FI Principles for Sustainable Insurance Initiative
www.unepfi.org/fileadmin/documents/insurance_industry_disaster_risk_management.pdf

Appendix

About the UNEP FI Principles for Sustainable Insurance 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 January 2015, about 80 organisations have adopted the Principles, including insurers representing approximately 15% of world premium volume and USD 9 trillion in assets under management. The Principles are part of the insurance industry criteria of the Dow Jones Sustainability Indices, FTSE4Good, and BM&FBOVESPA Corporate Sustainability Index.

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

The Principles for Sustainable Insurance

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.

About the UNEP Inquiry into the Design of a Sustainable Financial System

Launched at the 2014 World Economic Forum by the UN Environment Programme, the UNEP Inquiry into the Design of a Sustainable Financial System (UNEP Inquiry) seeks to advance policy options that would better align the financial system with the long-term health of the real economy—one that is sustainable. Its focus is on the “rules of the game” that govern the financial system—norms, policies, principles, regulations, incentives and standards—and how these can deliver a step change in the financial system’s effectiveness in mobilising capital for a sustainable economy.

The two-year UNEP Inquiry is guided by a high-level Advisory Council comprising financial policymakers and regulators, private standard-setters and executives of leading financial institutions. Its philosophy and practical approach is to consult widely with those involved in, as well as those impacted by the financial system, including civil society, financial institutions, governments and international organisations, as well as learning from and contributing to key UN initiatives and agencies.

Learn more at www.unep.org/inquiry

UNEP contact persons

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