The UN-convened Net-Zero Insurance Alliance (NZIA)

29 November 2021

Butch Bacani
Programme Leader
UN Environment Programme’s Principles for Sustainable Insurance Initiative
The triple role of the insurance industry in sustainable development

- **Insurer role** (financial risk management)
- **Risk manager role** (physical risk management)
- **Investor role** (asset management)

Sustainable development challenges & opportunities

Over USD 6 trillion world premium volume

Over USD 36 trillion global assets under management
Global mean temperature increase by 2100 since pre-industrial levels: What is our trajectory?

CAT warming projections
Global temperature increase by 2100
May 2021 Update

IPCC Working Group I Report is a code red for humanity.

Climate change widespread, rapid, and intensifying – IPCC
A 1.5°C vs. a 2°C world: Half a degree of warming is a world of a difference (based on IPCC special report on 1.5°C)

<table>
<thead>
<tr>
<th></th>
<th>1.5°C</th>
<th>2°C</th>
<th>2°C IMPACTS</th>
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<tbody>
<tr>
<td><strong>EXTREME HEAT</strong></td>
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<tr>
<td>Global population exposed to severe heat at least once every five years</td>
<td>14%</td>
<td>37%</td>
<td>2.6x WORSE</td>
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<tr>
<td><strong>SEA-ICE-FREE ARCTIC</strong></td>
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<tr>
<td>Number of ice-free summers</td>
<td>AT LEAST 1 EVERY 100 YEARS</td>
<td>10x WORSE</td>
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<td><strong>SEA LEVEL RISE</strong></td>
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<tr>
<td>Amount of sea level rise by 2100</td>
<td>0.40 METERS</td>
<td>0.46 METERS</td>
<td>.06M MORE</td>
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<td><strong>SPECIES LOSS: VERTEBRATES</strong></td>
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<tr>
<td>Vertebrates that lose at least half of their range</td>
<td>4%</td>
<td>8%</td>
<td>2x WORSE</td>
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<td><strong>SPECIES LOSS: PLANTS</strong></td>
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<tr>
<td>Plants that lose at least half of their range</td>
<td>8%</td>
<td>16%</td>
<td>2x WORSE</td>
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<td><strong>SPECIES LOSS: INSECTS</strong></td>
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<tr>
<td>Insects that lose at least half of their range</td>
<td>6%</td>
<td>18%</td>
<td>3x WORSE</td>
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<td><strong>ECOSYSTEMS</strong></td>
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<td>Amount of Earth’s land area where ecosystems will shift to a new biome</td>
<td>7%</td>
<td>13%</td>
<td>1.86x WORSE</td>
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<td><strong>PERMAFROST</strong></td>
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<tr>
<td>Amount of Arctic permafrost that will thaw</td>
<td>4.8 MILLION KM²</td>
<td>6.6 MILLION KM²</td>
<td>38% WORSE</td>
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<td><strong>CROP YIELDS</strong></td>
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<td>Reduction in maize harvests in tropics</td>
<td>3%</td>
<td>7%</td>
<td>2.3x WORSE</td>
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<td><strong>CORAL REEFS</strong></td>
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<td>Further decline in coral reefs</td>
<td>70–90%</td>
<td>99%</td>
<td>UP TO 29% WORSE</td>
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<td><strong>FISHERIES</strong></td>
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<tr>
<td>Decline in marine fisheries</td>
<td>1.5 MILLION TONNES</td>
<td>3 MILLION TONNES</td>
<td>2x WORSE</td>
</tr>
</tbody>
</table>

Source: World Resources Institute
PSI project to pilot the TCFD recommendations (Jan 2021)

- Assess climate-related risks in insurance portfolios in a forward-looking way, focusing on using climate change scenarios, in line with TCFD recommendations

- Pioneering initiative covering climate-related physical, transition and litigation risks in one major collaborative study

- An initial framework to support an integrated approach to assessing climate-related risks
“By insuring and investing with foresight, the insurance industry has the opportunity to break the ‘Tragedy of the Horizon’.

“And in doing so, the industry can seize the unprecedented ‘Opportunity on the Horizon’—to insure the transition to a resilient net-zero world—one that is safer, healthier, more inclusive, prosperous and sustainable. In other words, a more sustainable and insurable world.”

Mark Carney
UN Special Envoy on Climate Action & Finance
UK Prime Minister’s Finance Adviser for COP26
Chair of Glasgow Financial Alliance for Net Zero (GFANZ)

Former Chair of the Financial Stability Board
Former Governor of the Bank of England
Latest TCFD report (October 2021)

Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans

Measuring Portfolio Alignment: Technical Supplement

- Understand climate-related risks and opportunities
- Set climate ambition
- Define high-level climate strategy
- Define climate-related metrics
- Estimate climate-related financial impacts (e.g., w/ scenario analysis)
- Set targets aligned with climate ambition
- Articulate transition planning as part of climate strategy
- Report and disclose
Raising the insurance industry’s climate ambition

From enhancing climate risk analysis to aligning insurance and investment portfolios with the 1.5°C target of the Paris Agreement

Source: 2° Investing Initiative
The NZAOA Commitment: Currently representing over USD 6 trillion in assets under management

- Transition investment portfolios to net-zero GHG emissions by 2050 consistent with 1.5°C target of the Paris Agreement
- Take into account best available scientific knowledge including IPCC findings
- Regularly report on progress, establish intermediate targets every 5 years in line with Paris Agreement
- Commitment embedded in holistic ESG approach, incorporating climate change, and emphasise GHG emissions reduction outcomes in real economy
- Advocate for and engage in corporate and industry action, as well as public policies, for low-carbon transition of economic sectors in line with science, and considering social impacts
- Commitment made with expectation that governments will follow through on their own commitments to ensure objectives of Paris Agreement are met
How can insurance support the transition to a net-zero emissions economy?

**UN-convened Net-Zero Insurance Alliance**  
(established July 2021)

**1.5°C target of Paris Agreement**

**UN-convened Net-Zero Asset Owner Alliance**  
(established September 2019)

Insurance company

Insurance portfolio

Investment portfolio
World’s leading insurers and reinsurers and PSI launch Net-Zero Insurance Alliance at G20 Venice Climate Summit (July 2021)
Net-Zero Insurance Alliance (NZIA) commitments

1. Transitioning all operational and attributable GHG emissions from its insurance and reinsurance underwriting portfolios to net-zero emissions by 2050 consistent with a maximum temperature rise of 1.5°C

2. Individually set science-based intermediate targets every 5 years and independently report on progress publicly and annually

3. First intermediate targets to be made public within 6 months of publication of NZIA target-setting protocol (to be published by Jan 2023), or within 6 months of joining NZIA if such protocol already exists

4. Consider latest available scientific knowledge and associated social impacts, and findings of recognised reports (e.g. IPCC, International Energy Agency’s Net Zero by 2050 report)

5. Support TCFD recommendations, emerging frameworks such as Task Force on Nature-related Financial Disclosures (TNFD)
NZIA commitments

6. Support **UN Sustainable Development Goals (SDGs)** and **Post-2020 Global Biodiversity Framework**

7. Sign **UN Principles for Sustainable Insurance (PSI)**

8. Aim to transition **investment portfolios to net-zero GHG emissions** and join relevant (e.g. Net-Zero Asset Owner Alliance) for **total balance sheet approach** to net zero

9. Work together with **insurance associations, regulators and supervisors, governments, trade bodies, policymakers, UN** to promote NZIA goals, and to seek consistency of regulatory, supervisory and policy frameworks with the net-zero transition

10. Engage with **insurance industry and financial sector peers and trade bodies, leading scientific organisations, academia, NGOs** on NZIA goals
Potential approaches to net-zero insurance

- Underwriting criteria (e.g. carbon-intensive activities)
- Engagement with clients & potential clients (decarbonisation pathways)
- Green insurance products & solutions (insuring the transition)
- Sustainable claims management (circular economy)
- Risk management frameworks (integration of net-zero criteria)
- Policy engagement (science-based & just transition of economic sectors to net zero)
### NZIA work streams (initial priorities)

<table>
<thead>
<tr>
<th>Work Stream 1 (WS1)</th>
<th>Metrics for “insured emissions” &amp; target-setting protocol</th>
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<tbody>
<tr>
<td>Work Stream 2 (WS2)</td>
<td>Net-zero insurance white paper</td>
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<td>Work Stream 3 (WS3)</td>
<td>Engagement with key stakeholders</td>
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<td>Work Stream 4 (WS4)</td>
<td>Life &amp; Health insurance business</td>
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<td>Work Stream 5 (WS5)</td>
<td>Antitrust/Competition law</td>
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<td>Work Stream 6 (WS6)</td>
<td>Communications</td>
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<tr>
<td>Risk knowledge</td>
<td>(potential work stream)</td>
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<tr>
<td>Disclosure</td>
<td>(potential work stream)</td>
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</table>
Announcement

Partnership for Carbon Accounting Financials collaborates with UN-convened Net-Zero Insurance Alliance to develop standard to measure insured emissions
NZIA expands its membership (Oct 2021)

UN-convened Net-Zero Insurance Alliance

#NetZeroFinance unepfi.org/net-zero-insurance
Lloyd’s of London joins the NZIA (Oct 2021)

Commitments by the Lloyd’s Corporation, which oversees and supports the Lloyd’s insurance marketplace, include:

- Transition all operational and attributable GHG emissions to net-zero emissions by 2050
- Set science-based intermediate targets every 5 years and report on progress publicly and annually
- Reduce operational emissions to net zero by 2025
- Develop approach and roadmap to transition the Central Fund to net zero by 2050
- Set out expectation that managing agents should be developing ESG strategies and net-zero plans, embed relevant approaches in its market oversight framework. Relevant targets:
  - Proportion of market participants introducing ESG strategies and net-zero approaches and commitments
  - Proportion of market participants that have signed up to NZIA and relevant initiatives (e.g. Net-Zero Asset Owner Alliance)
  - Number of concrete efforts and activities by the Lloyd’s Corporation to build knowledge and develop capacity on science-based net-zero strategies and approaches within the marketplace
NZIA accredited by UN’s Race to Zero campaign

Nigel Topping
UN High-Level Climate Action Champion for COP26

“The Net-Zero Insurance Alliance being accredited by the UN’s Race to Zero campaign makes it the gold standard for net-zero insurance commitments in terms of ambition, credibility, accountability and transparency. I urge insurers across the globe to raise their climate ambition by joining the NZIA and become part of the solution. The time for decisive climate action is now.”
Glasgow Financial Alliance for Net Zero (GFANZ)

GFANZ: Led by Mark Carney’s COP26 Private Finance Hub in partnership with UN High-Level Climate Action Champions

- Brings together Race to Zero initiatives across the financial sector to mobilise and raise net-zero ambition

Net-Zero Asset Owner Alliance
Net-Zero Asset Managers Initiative
Net-Zero Investment Consultants Initiative
Net-Zero Insurance Alliance
Net-Zero Banking Alliance
Finance ministers of world’s most climate-vulnerable economies establish insurance facility with PSI to protect MSMEs (July 2021)

Recommendations of the California Climate Insurance Working Group (supported by PSI) (July 2021)
The insurance industry’s triple role in sustainable development (examples)

- Insurer role (financial risk management)
- Risk manager role (physical risk management)
- Investor role (asset management)

Sustainable development challenges & opportunities

Understand – Prevent – Reduce – Transfer risk

PSI initiative to shape the sustainability agenda for the life & health insurance industry

PSI guide to better prevent and reduce ESG/sustainability risks in non-life insurance business

PSI TCFD insurance pilot project to better understand and manage climate risks

PSI Insurance SDGs initiative to define sustainable insurance business and harness insurance products & solutions for the SDGs

V20 Sustainable Insurance Facility to build resilient MSMEs in most climate-vulnerable countries
Next NZIA commitments

- NZIA statement of commitment by brokers
- NZIA statement of commitment by supporting institutions (e.g. insurance associations)
Insuring for sustainable development

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www.unepfi.org/psi