

Speech by Jacqueline Aloisi de Larderel
Director, UNEP Division of Technology, Industry and
Economics

at the UNEP/Swedish EPA Insurance meeting

Stockholm, Sweden

5th May 2000

Good morning Ladies and Gentlemen,

Firstly I would like to take this opportunity to offer my sincere thanks and appreciation to our partners in this venture the Swedish Environmental Protection Agency who have shown vision in inviting UNEP to co-host this groundbreaking event. The minister Mr. Kjell Larson, and all his staff at the Swedish environment ministry have worked tirelessly in organising this seminar. I would also like to thank the Nordic Council of Ministers without whose kind support we would not have been able to convene here today.

The United Nations conference on the Human Environment, held in Stockholm in 1972, marked the establishment of the United Nations Environment Programme (UNEP). Since then, UNEP has been effective in catalyzing and coordinating actions within and outside the United Nations on issues related to the human environment.

It is structured in seven divisions to address this challenge and I have the honour to head the Division of Technology, Industry and Economics. Our mission is to encourage decision makers in government, local authorities, industry and commerce to adopt policies and strategies that promote the sustainable use of environmental and natural resources.

UNEP's uniqueness lies in its advocacy of environmental concerns within the international system. In this, it makes a particular effort to nurture partnerships with other UN bodies possessing complementary skills and delivery capabilities as well as enhancing the participation of the scientific community, industry, NGOs, and most importantly, the private sector in achieving sustainable development.

Since the early 1990's UNEP has worked closely with the financial services sector. The co-operation between UNEP and the financial sector has had a remarkable record of progress and dynamism. Since 1991 we have worked, initially with a small group of commercial banks, in trying to understand and catalyse these institutions' awareness in

the environmental agenda. The Financial Institutions Initiative was founded in 1992 – coinciding with the Earth Summit held in Rio de Janeiro, to engage a broad range of banks in a constructive dialogue about the nexus between economic development, environmental protection and sustainable development and the role of commercial banks in this regard. This Initiative was followed by the launch of the UNEP Statement of Environmental Commitment by the Insurance Industry in 1995. To date we have 172 banks from 45 countries who have signed the financial institutions statement and 87 companies from 27 countries who have signed up to the insurance industry statement.

By signing the Statement of Environmental Commitment by the Insurance Industry, companies undertake to make every effort towards achieving a balance of economic development and an environmentally sound environment. The statement acknowledges the principle of sustainable development and the precautionary principle and also calls on insurers to incorporate environmental considerations into their internal and external business activities. A significant aspect of the statement is the commitment of the signatories to report on their own environmental activities to the public, and to enter into a dialogue with all bodies interested in this matter.

The UNEP Insurance Industry Initiative works towards raising awareness within the industry and encouraging dialogue. It also acts as a media for information sharing and promoting sustainable and green investments. One of its main objectives is to inject insurance and pension funds concerns into the international environmental policy debate and to also highlight the link between economical and ecological performance.

As a follow up to the launch of the statement, UNEP in close collaboration with its Steering Group on Insurance, organized a workshop in London in 1996 entitled "Implementing Environmental Commitment by the Insurance Sector". The workshop focused on issues, such as asset management, risk management and environmental reporting. One outcome of this workshop was a position paper of the UNEP Insurance Initiative on "Insurance and Climate Change". The position paper called upon

governments for early and substantial reductions in greenhouse gas emissions. This position paper was presented to government officials at the second and third meeting of the Conference of the Parties of the Framework Convention on Climate Change (FCCC) in 1996 and 1997. In order to more specifically address areas of environmental concern, the Insurance Industry Initiative, in association with UNEP formed the *insurance Industry Initiative for the Environment, in Association with the United Nations Environment Programme*, known as the Association. The Association formed two working groups – one on climate change and the other on asset management. These working groups are the driving forces in furthering the discussions in these areas and to encourage members to reflect the recommendations and environmental considerations in their daily business operations. Currently on-going discussions include the development of a corporate CO₂ standard and the implications of the Kyoto Protocol for insurers. The UNEP Initiatives also produces a quarterly newsletter and various fact sheets related to issues such as Climate change, ISO, Risk management etc.

At the end of 1999 the Insurance Industry Initiative commenced a Survey on Implementation of the Insurance Statement directed at its signatories. This survey was dispatched to all signatories and the aggregate results will be published shortly. The results of this survey will allow members of the Initiative to benchmark their own position against the total signatory group and focus future efforts on areas which will be of benefit to the Initiative's membership.

In recent years there has been radical changes within the global financial services sector which have precipitated a number of mergers and acquisitions. These current trends highlighted the need for closer links between the UNEP Financial Institutions Initiative and the UNEP Insurance Industry Initiative. This closer cooperation will culminate in an international conference which the two initiatives will organize jointly in November this year, and which will take place at Deutsche Bank Headquarters in Frankfurt. The theme of this years conference is "Globalization and Sustainability in the Financial Services Sector" and will focus on issues such as Environmental Management and Reporting,

Climate Investment and Corporate Social Responsibility issues and the role of the financial services sector in promoting sustainability. The two initiatives have also recently agreed to extend their cooperation with their respective activities and to set up joint Working Groups on the following issues (1) Global Warming and Emissions Trading (2) Asset Management, and (3) Corporate and Social Reporting and Environmental Responsibility.

Some might ask why the Financial Services Sector is so interested in climate change issues, sustainability and the environment and question, whether this is good for business. Well, it definitely is and let me explain why:

Over the past decade the insurance industry could observe that the number of severe weather events have risen from 10 events in the 1960s to more than 40 in the 1990s. Storms and floods have accounted for by far the largest pay-outs the sector has had to make over recent years: insurers are still reeling from a series of billion dollar plus storms, hurricanes and floods. Over the past 10 years insured claims totaling more than US\$ 82 billion, according to Munich and Swiss Re, two of the leading reinsurance companies. The ratio of economic losses in the 1960s to the 1990s has risen by a factor of nearly 8, insured losses rose by a factor of about 12 compared to the 1960s. In 1998 alone, the insurance industry had to pay-out claims of over US\$ 17.5 billion, while the global economic loss was about US\$ 90 billion.

The knowledge that human activity can irreversibly change the world's climate and in all likelihood already has, is an arresting thought for us all. But when the Intergovernmental Panel on Climate Change (IPCC), which brought together more than 2,000 of the world's leading scientists and climatologists, announced in 1996 that the balance of evidence suggests a discernible human influence on the global climate, the insurance world became increasingly concerned about Climate Change.

If it were possible to take all risk out of day to day business, the insurance world would not be the giant international industry it is. But where risks cannot be completely eliminated, it still has to act on the basis of the best scientific data available. Insurers apply the “precautionary principle” the idea that action is needed to prevent accidents or disasters even if some of the dimensions of risk cannot be quantified and scientific evidence is not sufficient to have proof of complex inter-linkages between observable or assumed effects.

This is the principle that the industry has asked the international community to take into consideration when dealing with the framework legislation on climate change. The most important precautionary measure that can be taken in the light of current information on climate change is a substantial reduction in greenhouse gas emissions, particularly carbon dioxide, and one of the first actions of the Insurance Industry Initiative has been to put its weight behind the lobby for early international targets.

The climate debate has been by far the most pressing issue for the UNEP Insurance Initiative, and the steering group has a special working group watching developments closely. Some member companies have gone even further, investing in “green technologies”, creating investment portfolios with sustainability leaders, partnering in venture capital funds and project financing (SIP), developing new insurance products and exploring the roles, they could play in the framework of the Kyoto Protocol (verification/certification, carbon offset funds, CO₂ emissions evaluation etc.).

It is clear that governments on their own are not capable of solving the world's environmental problems. As public concern over issues such as global warming increases, the financial sector will begin to respond by changing its investment patterns accordingly. Proactive action is required on the part of the financial services sector. In any event there are significant business rewards for the front-runners.

That is why we in UNEP stand ready to help and assist you take the aims and principles of the Initiative to heart, and to implement them in a way which is both productive and beneficial for you. This we can do through a number of ways including those I mentioned earlier including dissemination of best practices, comprehensive surveys of the membership, substantive papers, newsletters, extensive international outreach meetings and frequent roundtable summits where ongoing activities are discussed and future plans laid on the table.

The UNEP Insurance Industry Initiative sees the way forward through active involvement in research and through the activities of the IPCC as well as assisting governments in addressing climate change through new insurance and financial markets. There are new opportunities in carbon funds, venture capital funds, and redirecting investments in carbon light industries.

Finally, I would just like to wish you all a very stimulating and successful seminar here today. It is UNEP's intention to continue this successful partnership with the Swedish EPA and to work more closely with the Scandinavian financial services sector in the future. I am certain that together we will produce results that will help to mainstream and therefore fully integrate the environment and sustainable development in financial analysis and in so doing build consensus that environmental sense really does make business sense.

Thank you.