UNEP Finance Initiative
Innovative financing for sustainability

March 2011

The Principles for Sustainable Insurance

Global consultation version

Produced by:

The Principles for Sustainable Insurance Team of the United Nations Environment Programme Finance Initiative

Contents

Contact

Butch Bacani
Programme Leader, Principles for Sustainable Insurance Initiative
& UNEP FI Insurance Commission
United Nations Environment Programme Finance Initiative
International Environment House
15 chemin des Anémones
1219 Châtelaine, Geneva
Switzerland
T: +41 22 917 8777
butch.bacani@unep.org
www.unepfi.org

I. About the Principles

The initiative to develop Principles for Sustainable Insurance (PSI) commenced after a series of research studies[1] by the Insurance Working Group of the UN Environment Programme Finance Initiative (UNEP FI). The research focused on the insurance business and the risks and opportunities associated with environmental, social and governance issues. These issues were assessed in the context of business performance and sustainable development.

The development of the Principles for Sustainable Insurance—as a global best practice framework, and as a global partnership between the UN and the insurance industry—is being led by a core group of UNEP FI insurance industry member institutions (the 'PSI Team').[2] From November 2009 to February 2011, the PSI Team undertook an extensive process of in-depth deliberations to produce this consultation version of the Principles.

The PSI development process is global, inclusive and consultative, involving UN-facilitated, insurance industry-led, multi-stakeholder meetings taking place in 2011 in Africa, Asia, Europe, Latin America and the Caribbean, the Middle East and North Africa, North America, and Oceania. The meetings will engage senior representatives from the insurance industry, governments and regulators, intergovernmental organisations, business and industry, civil society, academia and the scientific community.

The Principles are scheduled to be launched at the 2012 UN Conference on Sustainable Development ('Rio+20 Conference') in Rio de Janeiro, Brazil, and will represent a landmark contribution and long-term commitment of the global insurance industry to the goals of sustainable development. The launch of the Principles will also mark the commencement of the Principles for Sustainable Insurance Initiative as a global partnership between the UN and the insurance industry to promote the adoption and support the implementation of the Principles.

The Principles for Sustainable Insurance reflect the increasing relevance of environmental, social and governance issues to the long-term health, resilience and sustainability of the insurance industry and economies. In signing the Principles, insurance industry participants publicly commit to adopt and implement them, where consistent with their roles and responsibilities. They also commit to determine the impact and evaluate the effectiveness of the Principles at the company, insurance industry and stakeholder levels, and to review and improve the Principles over time. Signatories believe these actions will improve their ability to meet their commitments and responsibilities to all their stakeholders.

---

[1] See 'Insuring for sustainability – Why and how the leaders are doing it' (UNEP FI Insurance Working Group, 2007) and 'The global state of sustainable insurance – Understanding and integrating environmental, social and governance factors in insurance' (UNEP FI Insurance Working Group, 2009)

[2] The UNEP FI insurance industry member institutions leading the Principles for Sustainable Insurance Initiative are Achmea, Allianz, Argo, Aviva, AXA, Chartis, Folksam, HSBC Insurance, Insurance Australia Group, Interamerican Hellenic Insurance Group, Lloyd's, MAPFRE, Munich Re, RSA Insurance Group, Santam, Sompo Japan, Sovereign, Storebrand, Swiss Re, The Co-operators Group Ltd, The Willis Group, and Tokio Marine & Nichido Fire Insurance.

The Principles for Sustainable Insurance complement existing UN-backed global frameworks that promote the adoption of sustainable business practices, such as the UN Global Compact Principles and Principles for Responsible Investment.

The UN Global Compact Principles serve as the overall value framework for UN cooperation and partnerships with the business sector, including the financial sector. The Principles are derived from universally-accepted principles in the areas of human rights, labour, environment and anti-corruption, and are applicable to all industry sectors.

Within the financial sector, the Principles for Responsible Investment, and now, the Principles for Sustainable Insurance, provide UN-backed global frameworks designed by and for the investment and insurance industries, respectively. Both frameworks are aligned with and complement the goals of the UN Global Compact Principles.

Specifically, the Principles for Responsible Investment represent the investment management framework of the Principles for Sustainable Insurance. Taken together, they form a holistic global sustainability framework for the insurance and investment activities of the insurance industry.

II. Structure of the Principles

Three spheres of influence backed by reporting

III. The Principles for Sustainable Insurance

Introduction

The insurance industry's core expertise and business is to understand, manage and carry risk. Risk management and accurate measurement and pricing of risk for clients enable the insurance industry to communicate risk signals, serving as an important early warning system for society. Through risk prevention and risk reduction, by sharing risks over many shoulders, and as major institutional investors, the insurance industry protects society, catalyses finance and investment, fosters innovation, shapes markets and underpins economic development.

Environmental, social and governance (ESG) issues span a wide range of business risks, and are interrelated with the conventional insurance industry terms of 'emerging risks' and 'reputation risks'. ESG issues are dynamic and can change over time.

In our roles and responsibilities as risk managers, risk carriers and institutional investors, we believe that ESG issues present a wide range of risks and opportunities to our business. We believe that ESG issues can be material to enhancing financial returns, business performance and company value—to varying degrees—across lines of insurance[3], asset classes, companies, sectors, demographics, geographies, and through time. Equally, ESG issues can pose long-term and systemic risks to economies that can undermine socio-economic stability and growth, and sustainable development[4].

Amid a changing risk landscape and the increasing diversity and interconnectedness of risks, we believe that an insurance industry proactively, responsibly and fully embracing ESG issues in its insurance and investment activities can contribute more significantly to reducing long-term and systemic risks; to achieving a resource efficient, low carbon, inclusive and sustainable global economy; and to the sustainable development of societies.

Therefore, where consistent with our roles and responsibilities, we commit to the following principles, including the actions for success for each principle which provide practical guidance on implementation:

[3] Unless otherwise stated, the terms 'insurance', 'insurer' and 'insurance company' are meant to encompass other classifications of risk transfer mechanisms (i.e. reinsurance, retrocession) and risk carrier institutions (i.e. reinsurer or reinsurance company, retrocessionaire or retrocession company), as well as risk intermediaries (i.e. agents, brokers) and other risk service providers. The term 'insurance industry' is meant to encompass all risk carriers, risk intermediaries and risk service providers in the insurance, reinsurance and retrocession industries, which are governed by regulatory and supervisory authorities.

[4] Sustainable development is defined as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs.' ('Our Common Future', UN World Commission on Environment and Development, 1987)

Principle 1
We will systematically consider environmental, social and governance issues in our business principles, strategies and operations.

Principle 2
We will engage with insurance industry participants to raise awareness on environmental, social and governance issues, reduce risk and develop solutions.

Principle 3
We will work together with society to enhance our effectiveness in implementing the Principles.

Principle 4
We will be transparent by reporting on our activities and progress in implementing the Principles.

Principle 1

We will systematically consider environmental, social and governance issues in our business principles, strategies and operations.

Rationale

There is increasing evidence that a wide range of ESG issues is material to the insurance business and can pose long-term and systemic risks to the insurance industry and economies.[5] *Many ESG issues are already being managed effectively by the insurance industry. However, the materiality and scale of various ESG issues are not yet fully understood and insurance companies need to continuously invest in building their knowledge and expertise to manage these issues prudently. Systematic consideration of ESG issues in business strategies, operations, lines, products and services is needed to reduce risk and capitalise on opportunities. This should be an integral component of an insurance company's risk framework and strategy (insurance and non-insurance risks) and of business sustainability.*

Company-wide business principles, strategies and operations

Actions for success

- Establish a well-defined company strategy from the Board and executive management levels, including appropriate governance and accountability mechanisms, to systematically identify, assess, manage and monitor risks and opportunities in business operations

- Identify and assess ESG issues material to business operations, lines, products and services

- Ensure that the company's business principles, policies, risk framework and strategy, and corporate communications enable awareness and management of ESG issues material to the company

- Allocate responsibility for ESG risk management at the Board and executive management levels to achieve a clear mandate on systemic risk governance and holistic risk management practices in business operations

---

[5] See Section III 'A materiality guide – Examples of environmental, social and governance issues by line of insurance' and Section IV 'An insurer perspective – Examples environmental, social and governance issues and insurer considerations' of this document, as well as ESG issues covered by the following research studies: 'Insuring for sustainability – Why and how the leaders are doing it' (UNEP FI Insurance Working Group, 2007) and 'The global state of sustainable insurance – Understanding and integrating environmental, social and governance factors in insurance' (UNEP FI Insurance Working Group, 2009)

- Invest in a training programme that enables employees to build their expertise in managing ESG issues material to the company's business, and enhances the risk and opportunity culture within the organisation

- Regularly communicate internally and externally progress being made by the company in reducing risk and capitalising on opportunities to highlight the value of risk management and insurance to society

Specific business operations

Risk management and underwriting

Actions for success

- Conduct and/or support risk research on material ESG issues across lines of insurance, geographies and business transactions[6] to improve risk identification, risk assessment, risk prevention and risk reduction, and to develop appropriate adaptation measures and risk transfer solutions

- Support the development of best practice risk management and underwriting models, analytics, tools and metrics on or which consider ESG issues

- Identify where material ESG gaps exist with respect to risk management and underwriting guidelines across lines of insurance, geographies and business transactions (e.g. risk and vulnerability assessment, risk prevention and risk reduction measures, emerging risk and reputation risk management, risk-based pricing, relevant policy terms and conditions)

- Consider ESG issues when collecting risk exposure data for input into risk management, underwriting and capital adequacy decision-making processes and relevant models (e.g. catastrophe risks, asset-liability management, longevity and mortality risks, solvency risks, enterprise risk management)

- Assess clients' adherence to regulations and, where appropriate, relevant standards, norms, codes of conduct and principles focusing on ESG issues (e.g. UN Global Compact Principles[7])

[6] See 'Recommendations for managing environmental, social and ethical challenges in business transactions' (Chief Risk Officers Forum, 2010)

[7] The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally-accepted principles. The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption.

Product and service development

Actions for success

- Develop commercially viable risk management services and insurance products which reduce risk for clients, have a positive impact on ESG issues and/or encourage or reward improved ESG risk management (e.g. disaster risk reduction, resource efficiency, environmental sustainability, social and financial inclusion, improved safety, better health, good governance)

- Consider partnerships (e.g. public-private) and scientific and technological advancements to develop and scale up such risk management services and insurance products (e.g. improved land use and disaster planning and management; infrastructure safety and resiliency; flood, drainage and irrigation systems; ecosystem and coastal management; appropriate and affordable insurance for low-income people; index-based insurance, catastrophe bonds and other insurance-linked securities for agricultural, climatic and natural catastrophe risks)

- Clearly define and communicate product and service coverage and benefits such that they are easily understood and clearly explained to clients and potential clients

Claims management

Actions for success

- Respond swiftly and effectively to assist clients in dealing with claims quickly, fairly, sensitively and transparently at all times

- Consider partnerships to establish or reinforce early warning systems and improve the company's state of preparedness for any loss event (e.g. with governments, information and communication technology companies, utilities and transport companies, emergency service providers, disaster relief and environmental organisations)

- Consider ESG issues within claims management processes and guidelines, including information technology systems and data (e.g. repairs or replacements that improve infrastructure safety and resiliency, enhance energy and water efficiency, use sustainable timber, reduce pollution and greenhouse gas emissions; claims services that facilitate recovery from injury or illness)

- Assess clients' adherence to regulations and claims management processes and guidelines that combat corruption (e.g. fraud, bribery, extortion) and money laundering

- Train claims management personnel; ensure competent loss adjusters, surveyors and intermediaries; and work with industry associations to prevent and effectively manage insurance fraud and money laundering

- Clearly define and communicate claims management processes and guidelines, including complaints and dispute settlement procedures, such that they are easily understood and clearly explained to clients and potential clients

Sales and marketing

Actions for success

- Inform sales and marketing personnel on the potential ESG impacts of products, services and distribution channels being utilised (e.g. direct marketing, agent behaviour)

- Invest in a training programme on responsible sales and marketing, including products and services focusing on ESG issues, and assess sales and marketing personnel's performance and incentives in these areas

- Integrate key messages into sales and marketing strategies and campaigns in line with product and service relevance and the company's core principles and strategies on business sustainability and corporate responsibility

Investment management

Action for success

- Adopt the United Nations-backed Principles for Responsible Investment (PRI), which represent the investment management framework of the Principles for Sustainable Insurance (PSI). The PRI is a global best practice framework to help investors (e.g. insurance companies, pension funds, mutual funds, sovereign wealth funds, investment management firms) achieve better long-term investment returns and sustainable markets through improved analysis of ESG issues in the investment process and the exercise of responsible ownership practices. Taken together, the PSI and PRI form a holistic global sustainability framework addressing ESG issues in both the insurance and investment activities of the insurance industry.

  Please refer to Sections VI and VII of this document for more information on the PRI and its direct relevance to the PSI.[8]

[8] See also the website of the Principles for Responsible Investment

Principle 2

We will engage with insurance industry participants to raise awareness on environmental, social and governance issues, reduce risk and develop solutions.

Rationale

Clients and suppliers are fundamental to the success of any insurance company. An insurance company's responsibility is not limited to the provision of high quality and reliable insurance products and services. This responsibility extends to informing and working with clients and suppliers on various risks that are or can be material, including ESG issues. Clients and suppliers who are well aware of relevant ESG issues are likely to better manage and disclose their full range of risks, which would be in the best interests of all parties. This can also stimulate innovation and uncover new business opportunities.

Sustainable insurance—the strategic insurance approach that includes the systematic identification, assessment, management and monitoring of ESG risks and opportunities in the insurance process—aims to reduce risk through holistic risk management practices and develop innovative insurance solutions in order to enhance business performance and contribute to environmental, social and economic sustainability over time. To effectively realise these aims, it is critical for risk carriers, risk intermediaries and risk service providers to be aligned and incentivised to adopt sustainable insurance practices.

Clients and suppliers

Actions for success

- Highlight the potential benefits of managing ESG issues to clients and suppliers, where relevant

- Communicate the company's expectations and requirements on ESG issues to clients (e.g. risk survey forms, insurance application forms, insurance policies) and suppliers (e.g. environmental, workplace health and safety standards for repairers and builders) and provide incentives as the provision of evidence is improving (e.g. ESG disclosure in annual reports, communications or media)

- Consider ESG issues when tendering for and selecting suppliers (e.g. repairers, builders and technology companies that adhere to or exceed environmental, workplace health and safety standards)

- Encourage and/or work with clients and suppliers to adopt best practice management of ESG issues, where appropriate

- Provide clients and suppliers with tools and information that enable them to better assess and manage their and/or their own clients' and suppliers' ESG risks and opportunities

- Make clients and suppliers aware of relevant regulations, standards, norms, codes of conduct and principles focusing on ESG issues (e.g. UN Global Compact Principles) and ask about their adherence, where appropriate

- Ask clients and suppliers for transparent, integrated and comparable reporting on ESG issues (e.g. annual report, sustainability report, corporate responsibility report), including the use of relevant reporting frameworks (e.g. Global Reporting Initiative[9]), where appropriate

Risk carriers, risk intermediaries and risk service providers

Actions for success

- Lead by example by communicating the company's own commitment and actions to manage ESG issues in its business strategies and operations, including the company's strategy on business sustainability and corporate responsibility

- In order to align the insurance industry value chain, communicate the company's expectations and requirements on ESG issues (including the Principles for Sustainable Insurance), where applicable, to risk carriers (i.e. insurers, reinsurers, retrocessionaires), risk intermediaries (i.e. agents and brokers) and risk service providers (e.g. loss adjusters, surveyors, consultants, risk model vendors, rating agencies), and provide incentives to build their expertise in managing ESG issues relevant to the company's and their own business strategies and operations

- Engage with local, national, regional and international insurance associations and other relevant industry forums to manage ESG issues material to the insurance business, and to promote the adoption of the Principles for Sustainable Insurance

- Support the development and promotion of professional, educational and ethical standards in the insurance industry, including expertise in managing ESG issues, to enhance standards of risk management, competence and integrity in the insurance profession

[9] The Global Reporting Initiative (GRI) is a network-based organisation that has pioneered the development of the world's most widely-used sustainability reporting framework. This framework sets out the principles and indicators that organisations can use to measure and report their economic, environmental, and social performance. Sustainability reports based on the GRI framework can be used to benchmark organisational performance with respect to laws, norms, codes, performance standards and voluntary initiatives; demonstrate organisational commitment to sustainable development; and compare organisational performance over time.

Principle 3

We will work together with society to enhance our effectiveness in implementing the Principles.

Rationale

As risk managers, risk carriers and institutional investors, the insurance industry is uniquely positioned to lead in understanding a changing risk landscape and in managing global sustainability risks arising from ESG issues. However, the scale of many sustainability risks is too big for any one institution or industry to tackle—it requires collective action, innovative partnerships, and long-term solutions.

Actions for success

Governments and regulators

- Engage with governments and regulators to ensure that policy, regulatory and legal frameworks are prudential, benefit the insurance industry and society, and consider ESG issues

- Support prudential policy, regulatory and legal frameworks that enable risk reduction, foster innovation, and improve the understanding and management of ESG issues in the insurance industry (e.g. availability, reliability and accessibility of risk exposure data; improved land use and disaster planning and management, infrastructure safety and resiliency (including the enhancement and enforcement of building codes), ecosystem and coastal management; better insurance literacy and access to insurance; greater transparency and disclosure of material risks)

- Engage with governments and regulators in developing integrated risk management approaches and risk transfer solutions at the local, national, regional and international levels, where appropriate

Intergovernmental organisations

- Engage with intergovernmental organisations (e.g. entities within the United Nations) by providing risk management and risk transfer expertise and the insurance perspective to achieve the goals of sustainable development globally

Business and industry

- Engage with business and industry organisations to better understand and manage ESG issues across industry sectors and geographic markets

Civil society

- Engage with civil society organisations to enhance mutual understanding, constructive dialogue and cooperation on the impacts of ESG issues on the insurance industry, and the impacts of the insurance industry on the environment and society

Academia and scientific community

- Engage with academia and the scientific community to foster research and educational programmes on ESG issues and the insurance industry

Principle 4

We will be transparent by reporting on our activities and progress in implementing the Principles.

Rationale

Disclosure and transparency are essential to the legitimacy, stability, and effective and efficient functioning of insurance and financial markets. The Principles for Sustainable Insurance (PSI) Initiative has an annual reporting, assessment and transparency framework to monitor and evaluate the progress of signatories in implementing the Principles. This framework also acts as an accountability and integrity mechanism for the PSI Initiative, as a learning tool to identify best practices and areas of improvement, and as a foundation of insurer transparency.

Actions for success

- Disclose how ESG issues are systematically considered in the company's business principles, strategies and operations (e.g. annual report, sustainability report, corporate responsibility report, website) in a transparent, integrated and comparable manner

- Assess, measure and monitor the company's own performance on ESG issues in the company's operations and interactions with stakeholders based on regulatory and legal requirements and best practice reporting standards on ESG issues (e.g. Global Reporting Initiative, Greenhouse Gas Protocol[10]) in order to provide transparent, integrated and comparable data on ESG issues in the insurance industry

[10] The Greenhouse Gas Protocol (GHG Protocol) is the most widely-used international accounting tool for government and business leaders to understand, quantify, and manage greenhouse gas emissions. It provides the accounting framework for nearly every GHG standard and programme in the world.

- Participate in the annual mandatory reporting, assessment and transparency framework of the Principles for Sustainable Insurance which requires signatories to report on their progress and achievements in implementing the Principles using a ‘comply or explain’[11] approach, and communicate such progress and achievements to internal and external stakeholders where relevant

In signing the Principles for Sustainable Insurance, we as insurance industry participants publicly commit to adopt and implement them, where consistent with our roles and responsibilities.

We also commit to determine the impact and evaluate the effectiveness of the Principles at the company, insurance industry and stakeholder levels, and to review and improve the Principles over time.

We believe these actions will improve our ability to meet our commitments and responsibilities to all our stakeholders.

We believe that only by working together can we find solutions to manage global sustainability risks and ensure a sustainable insurance industry.

[11] The ‘comply or explain’ approach requires signatories to report on how they implement the Principles, or provide an explanation where they do not comply with them.

IV. An insurer perspective

Examples of environmental, social and governance issues and insurer considerations

1. Environmental issues

Companies and individuals practising environmental management are more aware of potential environmental risks and litigation which may arise, improve their ability to use resources more efficiently and acquire new resources, stimulate innovation and the development of new products, and usually occupy a more dynamic competitive position in their market. An insured's concern for the environment can make a preferred underwriting risk, and can help create new product opportunities. For example, environmental impairment liability insurance, index-based insurance for agricultural and natural catastrophe risks, motor insurance encouraging the reduction of pollution and greenhouse gas emissions, insurance for 'green-certified' buildings or the upgrade to 'green standards' (e.g. replacements that enhance energy and water efficiency, use sustainable timber), insurance for renewable energy (e.g. wind farms and offshore facilities, solar cell manufacturers, geothermal exploration risks), insurance for carbon credits, and insurance for carbon stored in forests.

The insurance industry has considerable experience with the impacts that can result from the failure to properly underwrite environmental issues. Distinct challenges emerge from those environmental concerns with longer latency periods resulting in delayed loss emergence and development patterns (e.g. gradual seepage and pollution resulting in environmental liability and harmful effects on human health). The difference in time between the recognition of harm and the attribution of cause can create a significant variance between expected and actual underwriting results.

The environment is an area where the insurance industry has demonstrated a unique ability to develop methods to assess and underwrite a properly managed risk.

Examples

Climate change

How does the insured manage the risks associated with climate change (e.g. increased frequency and severity of floods, hurricanes, windstorms, droughts, and other weather-related events), including its management of its greenhouse gas emissions?

The issue of climate change is defined by the UN Framework Convention on Climate Change as 'a change of climate which is attributed directly or indirectly to human activity that alters the composition of the global atmosphere and which is in addition to natural climate variability observed over comparable time periods.'

Biodiversity loss and ecosystem degradation

How does the insured manage the risks of and associated with biodiversity loss and ecosystem degradation? To what extent do the insured's operations impact and depend on biodiversity and ecosystem services?

The degradation of an intact ecosystem (e.g. forests, coral reefs, soils, wetlands) affects the dynamic and complex interaction of plant, animal, and micro-organism communities and their non-living environment; the services it provides people (e.g. food, freshwater, climate regulation, erosion control, timber); and biodiversity (i.e. the quantity and variability of living organisms), which underpins the supply of ecosystem services.

An example is the conversion of natural habitats—such as forests—to croplands, urban and industrial lands. This leads to damage or extinction of plant and animal species, resulting in reduced populations and distribution of biodiversity in many instances; as well as direct and indirect impacts on water, soil, and air quality. Moreover, deforestation significantly increases the vulnerability of communities to catastrophic risks such as flash floods and mudslides.

Water management

How does the insured manage the risks associated with water in terms of quantity, quality, and access?

In many regions around the world, water resources have become so depleted or contaminated that they are unable to meet ever-increasing demands, becoming a major impediment to socio-economic development. Water management issues are multi-faceted—from water supply and basic sanitation, to business and financial risks (e.g. losses due to disruption of operations, increased costs due to water treatment).

Pollution

How does the insured manage the risks of pollution?

Pollution arises from the discharge or release of toxic materials, as well as other pollutants (e.g. fertiliser runoff and pharmaceuticals from human excretion), that affect air, land and/or water. An example is 'dead' bodies of water (e.g. lakes, rivers) resulting from acid rain or through dumping of industrial waste.

2. Social issues

Social issues emphasise an insured's relationships with its many stakeholders—from employees, customers, and shareholders, to suppliers, communities and governments. Better understanding of stakeholder concerns provides important knowledge and reputation benefits which, in turn, can reduce reputation risk and the probability of claims.

Moreover, social issues are often an early indicator of an emerging risk and/or a new product opportunity for the insurance industry. Instances of what were once perceived as 'just' social issues and later evolving into areas of direct relevance to the insurance industry are:

- Worker safety
- The social issues addressed by life and health insurance
- Product safety concerns as manifested by product liability insurance
- Microinsurance (i.e. insurance for low-income people) and social housing insurance schemes
- Supply chains that involve child or forced labour
- Underwriting business in countries whose governments are widely perceived to be corrupt and oppressive (e.g. serious and/or systematic violations of fundamental human rights)

Examples

Social and financial inclusion

How involved is your company in the provision of insurance products and services to low-income people (widely known as microinsurance), people with disabilities, or people afflicted with pandemic diseases (e.g. HIV/AIDS), who customarily do not have access to insurance products and services?*

*Microinsurance is defined by the Microinsurance Network as 'a means of protecting low-income households against specific risks in exchange for a regular payment of premiums whose amount is proportional to the likelihood and cost of the relevant risk.'

Human rights[12]

How does the insured manage the risks of and associated with human rights violations—encompassing its employees, customers, suppliers, and the communities and countries where it operates? What are the implications for your company in terms of reputation risk?

Examples are abusive workplace conditions, gender or racial discrimination, child or forced labour in supply chains, forced relocation of communities, and governments widely perceived to commit human rights abuses.

The Universal Declaration of Human Rights (UDHR) proclaimed in 1948 by the UN General Assembly is the most widely accepted codification of universal human rights. The preamble to the UDHR calls on 'every individual and every organ of society' to respect and promote the rights set out in the UDHR including:

[12] The International Bill of Human Rights forms the foundation of many laws, conventions and treaties on human rights and comprises three fundamental instruments:

- The Universal Declaration of Human Rights 1948, which sets out the core human rights
- The International Covenant on Civil and Political Rights 1966 ('first generation of human rights')
- The International Covenant on Economic, Social and Cultural Rights 1966 ('second generation of human rights')

A 'third generation of human rights' has emerged in recent years including, for example, environmental rights and other collective rights such as the right to development.

- The right to life, liberty and security of person
- The right to freedom from torture
- The right to freedom from slavery
- The right to recognition and equality before the law
- The right to freedom from retroactive penal legislation
- The right to freedom of thought, conscience and religion
- The right to freedom of opinion and expression
- The right to freedom of peaceful assembly and association
- The right to property
- The right to decent work

Emerging manmade health risks

How does the insured manage emerging manmade health risks? How can your company improve its understanding of such risks, promote better health practices, and reduce the risks of endemics, pandemics and chronic progressive diseases that can impact your portfolio?

Many emerging manmade health risks arise from new technologies. Examples are the risks posed by nanoparticles (arising from nanotechnology), genetically modified organisms, electromagnetic fields, endocrine disruptors and obesity.

Ageing populations

How involved is your company in the provision of insurance products and services to ageing populations?

Ageing populations is a demographic change occurring mainly due to declining fertility and increasing longevity. For example, the lifelong income of ageing populations is becoming an issue of social and economic sustainability.

In the more developed regions, 22% of the population is already aged 60 or over and that proportion is projected to reach 33% in 2050. In developed countries as a whole, the number of older persons (aged 60 or over) has already surpassed the number of children (persons aged under 15), and by 2050, the number of older persons in developed countries will be more than twice the number of children. In the more developed regions, the population aged 60 or over is increasing at the fastest pace ever (growing at 1.9% annually) and is expected to increase by more than 50% over the next four decades, rising from 264 million in 2009 to 416 million in 2050. Compared with the more developed world, the population of the less developed regions is ageing rapidly. Over the next two decades, the population aged 60 or over in the developing world is projected to increase at rates far surpassing 3% per year and its numbers are expected to rise from 473 million in 2009 to 1.6 billion in 2050.[13]

[13] Source: 'World population prospects – The 2008 revision' (Population Division, Department of Economic and Social Affairs, United Nations, 2009)

3. Governance issues

Governance issues concern the ways in which an insured's managerial behaviours are controlled via regulations, monitoring of processes, alignment of interests, organisational values, codes of ethics, business principles and transparency requirements.

Governance practices shape the relationships between owners, managers and the stakeholders in markets and communities in which they operate. Good governance can directly reduce the risks of expensive litigation and the adverse impacts to specific lines of business such as directors' and officers' liability insurance. Governance may also be a 'marker' for management behaviours with the potential of impacting other lines of business.

Examples

Regulations

Does the insured adhere to national, regional and/or international regulatory frameworks, and what degree of consistent compliance does the insured demonstrate?

Examples are adherence to building codes, workplace and product safety standards, and environmental liability regulations.

Disclosure and transparency

Does the insured disclose factual information to its stakeholders in a transparent, integrated, consistent and timely manner?

Such disclosure allows the objective assessment of the performance and impacts of the insured's operations, provides a sufficient level of accountability, and safeguards reporting integrity. Examples are disclosure of greenhouse gas emissions, resource use and dependence (e.g. energy, water), workplace health and safety standards, responsible procurement and supply chain management, human rights management, executive compensation, board structure, and shareholder rights.

Business principles and ethics

Does the insured implement business principles and/or codes of ethics that consistently demonstrates a duty of care to its stakeholders and meets or exceeds any relevant standards? Is this supported by governance, accountability and reporting mechanisms?

Examples are fair trade standards and guidelines, the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the OECD Principles of Corporate Governance, the International Organization on Standardization ISO 26000 Guidance on Social Responsibility, and the UN Global Compact Principles encompassing the areas of human rights, labour, environment, and anti-corruption.

Alignment of interests

Does the insured employ practices that ensure aligned interests between its internal and external stakeholders in the conduct of its operations?

The progress of multiple stakeholders toward a common goal requires aligned interests—conflicts of interest can produce behaviours that reward the few at the expense of the many. Examples of practices that contribute to the alignment of interests are free, prior and informed consent from host communities in which the insured operates or will operate (e.g. large-scale industrial projects involving power generation, mining, forestry), and executive compensation linked to long-term corporate performance.

V. A materiality guide

Examples of environmental, social and governance issues by line of insurance

The following table gives an overview of ESG issues that are or can be material by line of insurance. Interpretations and the extent of materiality may vary due to a range of factors (e.g. knowledge and expertise, market standards and practices, regulations, socio-economic conditions, industry sector concerned, geographic location, demographics, cultural differences, time horizons). The ESG issues indicated are not meant to be an exhaustive and definitive list, and can be interrelated. Further, ESG issues are dynamic and can change over time.

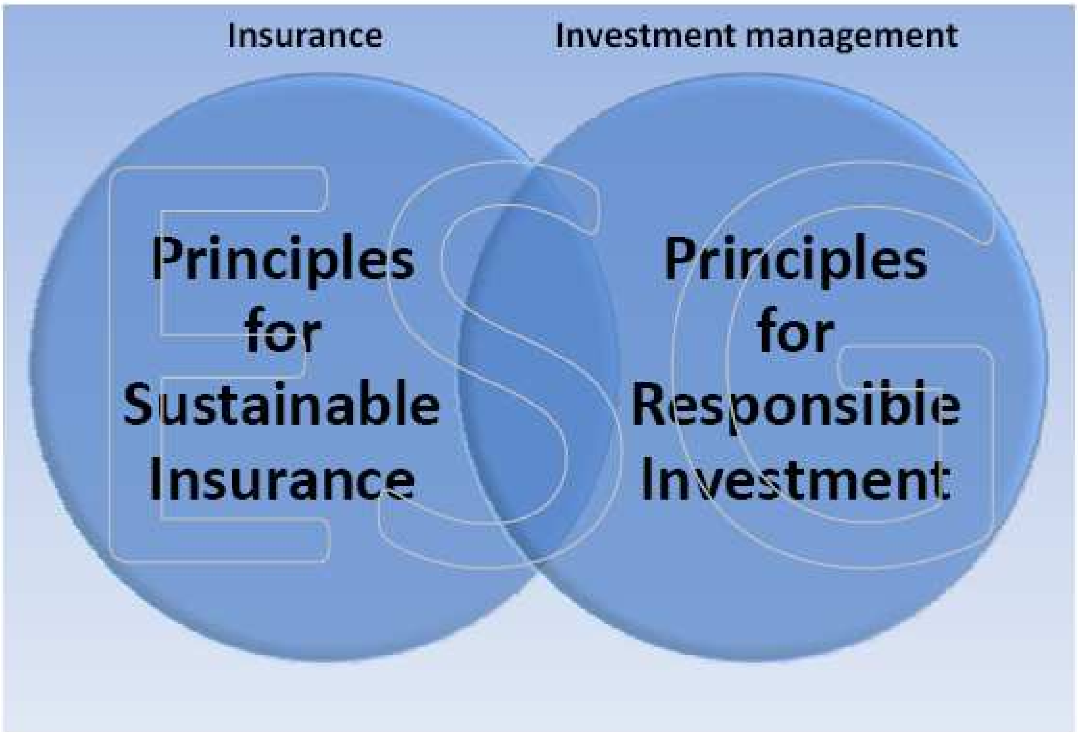
<table>
<tr><th colspan="2">Line of insurance</th><th>ESG issues across lines of insurance</th><th>Environmental</th><th>Social</th><th>Governance</th></tr>
<tr><td rowspan="2">Agroforestry</td><td>Personal</td><td rowspan="6">▪ Climate change and extreme weather events
▪ Natural hazards (hydrometeoro-logical, geological, biological)
▪ Pollution (air, land, water; hazardous materials and waste)
▪ Biodiversity loss and ecosystem degradation (deforestation and forest degradation, coral reef and mangrove destruction)
▪ General safety (construction, environmental, vehicular, home, product, workplace)
▪ Crime
▪ Human rights and labour standards (child or forced labour)
▪ Terrorism</td><td>▪ Resource efficiency
▪ Water scarcity
▪ Food security</td><td>▪ Social and financial inclusion (access to insurance for low-income people, people with disabilities, people with pandemic diseases)</td><td></td></tr>
<tr><td>Commercial</td><td>▪ Resource efficiency
▪ Water scarcity
▪ Food security</td><td>▪ Social and financial inclusion</td><td>▪ Governance of and reporting on ESG issues
▪ Adherence to business principles and ethics</td></tr>
<tr><td rowspan="2">Casualty/ Liability</td><td>Personal</td><td></td><td></td><td></td></tr>
<tr><td>Commercial</td><td></td><td>▪ Emerging manmade health risks (nanotechnology risks, genetically modified organisms, electromagnetic fields, endocrine disruptors, obesity)</td><td>▪ Governance of and reporting on ESG issues
▪ Adherence to business principles and ethics</td></tr>
<tr><td>Credit & Surety</td><td>Personal</td><td></td><td>▪ Social and financial inclusion</td><td></td></tr>
</table>

	Commercial	▪ Corruption (fraud, bribery, extortion) ▪ Disclosure and transparency (utmost good faith) ▪ Alignment of interests (insured-insurer relationship; free, prior and informed consent from host communities) ▪ Adherence to regulations (building codes, workplace and product safety, environmental liability, anti-corruption)		▪ Social and financial inclusion	▪ Governance of and reporting on ESG issues ▪ Adherence to business principles and ethics
Engineering	Personal				
	Commercial		▪ Resource efficiency ▪ Water scarcity		▪ Governance of and reporting on ESG issues ▪ Adherence to business principles and ethics
Health	Personal		▪ Water scarcity ▪ Food security	▪ Social and financial inclusion ▪ Emerging manmade health risks ▪ Ageing populations	
	Commercial		▪ Water scarcity ▪ Food security	▪ Social and financial inclusion ▪ Emerging manmade health risks ▪ Ageing populations	▪ Governance of and reporting on ESG issues ▪ Adherence to business principles and ethics
Life	Personal		▪ Water scarcity ▪ Food security	▪ Social and financial inclusion ▪ Emerging manmade health risks ▪ Ageing populations	
	Commercial		▪ Water scarcity ▪ Food security	▪ Social and financial inclusion ▪ Emerging manmade health risks ▪ Ageing populations	▪ Governance of and reporting on ESG issues ▪ Adherence to business principles and ethics
Marine, Aviation & Transport	Personal		▪ Resource efficiency		
	Commercial		▪ Resource efficiency		▪ Governance of and reporting on ESG issues ▪ Adherence to business principles and ethics

Motor	Personal		▪ Resource efficiency		
	Commercial		▪ Resource efficiency		▪ Governance of and reporting on ESG issues ▪ Adherence to business principles and ethics
Property	Personal		▪ Resource efficiency	▪ Social and financial inclusion	
	Commercial		▪ Resource efficiency ▪ Water scarcity	▪ Social and financial inclusion	▪ Governance of and reporting on ESG issues ▪ Adherence to business principles and ethics

VI. The Principles for Sustainable Insurance and The Principles for Responsible Investment

A holistic global best practice sustainability framework for the insurance industry



Background

The United Nations-backed Principles for Responsible Investment (PRI) represent the investment management framework of the Principles for Sustainable Insurance (PSI).

The PRI is a global best practice framework to help investors (e.g. insurance companies, pension funds, mutual funds, sovereign wealth funds, investment management firms) achieve better long-term investment returns and sustainable markets through improved analysis of ESG issues in the investment process and the exercise of responsible ownership practices.

The Principles were devised by the investment community and the process was coordinated by the UN Environment Programme Finance Initiative and UN Global Compact. The Principles were launched in 2006 by then UN Secretary-General Kofi Annan at the New York Stock Exchange and subsequently endorsed by current UN Secretary-General Ban Ki-moon.

The Principles reflect the view that ESG issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large.

Taken together, the PSI and PRI form a holistic global sustainability framework addressing ESG issues in both the insurance and investment activities of the insurance industry.

As a global initiative, the PRI is a network of investors working together with the UN to put the six Principles into practice. The PRI Initiative is managed by the PRI Secretariat, currently with about 30 staff members and growing, which supports investors by sharing best practice, facilitating collaboration and managing a range of work streams, services and networks such as the following:

- PRI Engagement Clearinghouse
- PRI Reporting and Assessment Tool
- PRI Implementation Support
- PRI Enhanced Research Portal
- PRI in Practice
- PRI Small Funds Initiative
- PRI in Private Equity
- PRI in Property (in partnership with the UNEP FI Property Working Group)
- PRI in Fixed Income
- PRI in Microfinance and Impact Investing
- PRI in Hedge Funds
- PRI in Infrastructure
- PRI Public Policy Network
- PRI Academic Network
- PRI in Person Annual Event, and other conferences and events

PRI local networks are now active in Australia, Brazil, Japan, South Africa and South Korea, and more networks are under consideration.

The PRI Initiative also houses the Principles for Investors in Inclusive Finance (PIIF), which were launched in January 2011 and provide a framework for responsible investment in inclusive finance. They were developed in response to growing interest and investments into inclusive finance and demand for investor guidance. The PIIF is an initiative of investors and Her Royal Highness Princess Máxima of the Netherlands, the UN Secretary-General's Special Advocate for Inclusive Finance for Development. The group developed the PIIF together with the PRI, the World Bank's Consultative Group to Assist the Poor, and several key industry players.

As of February 2011, nearly 900 investors from 45 countries, collectively representing more than USD 25 trillion in assets under management, have committed to implement the PRI and are progressively building sustainable capital markets through the PRI Initiative.

To learn more, please visit www.unpri.org

The Principles for Responsible Investment

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

Principle 1

We will incorporate ESG issues into investment analysis and decision-making processes.

Possible actions:

- Address ESG issues in investment policy statements
- Support development of ESG-related tools, metrics, and analyses
- Assess the capabilities of internal investment managers to incorporate ESG issues
- Assess the capabilities of external investment managers to incorporate ESG issues
- Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis
- Encourage academic and other research on this theme
- Advocate ESG training for investment professionals

Principle 2

We will be active owners and incorporate ESG issues into our ownership policies and practices.

Possible actions:

- Develop and disclose an active ownership policy consistent with the Principles
- Exercise voting rights or monitor compliance with voting policy (if outsourced)
- Develop an engagement capability (either directly or through outsourcing)
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights)
- File shareholder resolutions consistent with long-term ESG considerations
- Engage with companies on ESG issues
- Participate in collaborative engagement initiatives
- Ask investment managers to undertake and report on ESG-related engagement

Principle 3

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Possible actions:

- Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative)
- Ask for ESG issues to be integrated within annual financial reports
- Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact)
- Support shareholder initiatives and resolutions promoting ESG disclosure

Principle 4

We will promote acceptance and implementation of the Principles within the investment industry.

Possible actions:

- Include Principles-related requirements in requests for proposals (RFPs)
- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate)
- Communicate ESG expectations to investment service providers
- Revisit relationships with service providers that fail to meet ESG expectations
- Support the development of tools for benchmarking ESG integration
- Support regulatory or policy developments that enable implementation of the Principles

Principle 5

We will work together to enhance our effectiveness in implementing the Principles.

Possible actions:

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning
- Collectively address relevant emerging issues
- Develop or support appropriate collaborative initiatives

Principle 6

We will each report on our activities and progress towards implementing the Principles.

Possible actions:

- Disclose how ESG issues are integrated within investment practices
- Disclose active ownership activities (voting, engagement, and/or policy dialogue)
- Disclose what is required from service providers in relation to the Principles
- Communicate with beneficiaries about ESG issues and the Principles
- Report on progress and/or achievements relating to the Principles using a 'Comply or Explain' [1] approach
- Seek to determine the impact of the Principles
- Make use of reporting to raise awareness among a broader group of stakeholders

[1] The Comply or Explain approach requires signatories to report on how they implement the Principles, or provide an explanation where they do not comply with them.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles.

VII. Frequently asked questions

1. What are environmental, social and governance (ESG) issues?

ESG is a term that originated from the institutional investment industry. An often cited definition[14] in the investment context is as follows:

ESG – The term that has emerged globally to describe the environmental, social and corporate governance issues that investors are considering in the context of corporate behaviour. No definitive list of ESG issues exists, but they typically display one or more of the following characteristics:

- *Issues that have traditionally been considered non-financial or not material*
- *A medium or long-term horizon*
- *Qualitative objects that are not readily quantifiable in monetary terms*
- *Externalities (costs borne by other firms or by society at large) not well captured by market mechanisms*
- *A changing regulatory or policy framework*
- *Patterns arising throughout a company's supply chain (and therefore susceptible to unknown risks)*
- *A public-concern focus*

In the insurance context, ESG issues span a wide range of business risks, and are interrelated with the more conventional insurance industry terms of 'emerging risks' and 'reputation risks'.

Per the definition above, there is no definitive list of ESG issues. One concern in providing a definitive list is that by naming ESG issues one essentially excludes, curtails flexibility, or limits the interpretation of the scope of ESG issues. An analogy in the insurance business is an 'all risks' policy and a 'named perils' policy. An all risks policy implies that risks are covered unless expressly excluded, while a named perils policy implies that risks are excluded unless expressly covered.

Many ESG issues are or can be interrelated. For example, rapid population growth and the movement of more than half of the world's population to cities—which is expected to rise to 70% by 2050—have significant implications on economies and the insurance industry. Cities and coastal areas, particularly in developing countries, are increasingly becoming vulnerable to the rising frequency of extreme weather events, floods, earthquakes and other catastrophe risks. Further, inadequate sanitation and refuse collection and pollution in many cities expose inhabitants to multiple health risks such as infectious diseases, chronic non-communicable diseases, and risks from road accidents, injuries, violence and crime. These risks affect various lines of insurance such as property, business interruption, life, health, liability and political risks.

---

[14] Source: 'The global state of sustainable insurance – Understanding and integrating environmental, social and governance factors in insurance' (UNEP FI Insurance Working Group, 2009)

These demographic and environmental trends have direct impacts on insurers in terms of risk exposure, risk management, risk-based pricing and capital allocation. Moreover, cities are responsible for more than two-thirds of global energy consumption and greenhouse gas emissions. The interrelated ESG issues of population growth, urbanisation, climate change, pollution, waste and sanitation, health, crime, safety, and food and energy security therefore present a range of risks and opportunities for insurers.

Critically, ESG issues are dynamic and can change over time. Therefore, PSI signatories have the discretion to interpret and determine what they deem to be ESG issues material to the insurance business.

ESG is increasingly becoming a widely accepted term in the investment industry (e.g. Principles for Responsible Investment), so it would be mutually beneficial for insurers and investors (both roles played by insurance companies) to speak the same language, even within the same organisation (e.g. insurance and investment practitioners working in the same insurance company). Insurance companies are also investee companies. Since investors (e.g. PRI signatories) are increasingly integrating ESG issues in their investment analysis and decision-making, systematic consideration of ESG issues in insurance company strategies, operations and communications can enhance consistency and understanding between insurers and investors.

2. What is sustainable insurance?

Sustainable insurance can be defined as the strategic insurance approach that includes the systematic identification, assessment, management, and monitoring of ESG risks and opportunities in the insurance process to enhance financial returns, business performance and company value, and to contribute to environmental, social and economic sustainability over time.

In other words, the effective management of ESG risks and opportunities in the insurance process is integral to achieving business, environmental, social and economic sustainability, hence, the term ‘sustainable insurance’.

3. Are the Principles exclusionary in nature?

No. The Principles enable greater understanding and consideration of material ESG issues to enhance risk management practices and business opportunities. As risk managers and risk carriers, an insurance company can employ various approaches to encourage clients to adopt better ESG risk management practices and uncover new opportunities (e.g. risk research, risk awareness campaigns, risk prevention and risk reduction measures, product development, underwriting guidelines, policy warranties, policy exclusions, claims management guidelines).

The Principles were not designed to be inherently exclusionary and prescriptive, particularly as circumstances vary across organisations and markets. The Principles represent a voluntary and aspirational framework that enables signatories to achieve best practices in sustainable insurance. Indeed, the preposition ‘for’ instead of ‘of’ was deliberately used in the term, 'Principles for Sustainable Insurance' to underscore the enabling framework afforded by the Principles. Signatories have discretion on how they deem best to implement the Principles, and the actions for success for each Principle provide practical guidance on implementation.

4. What are the overall goals of the Principles?

The Principles provide a global best practice framework that facilitates the systematic consideration of ESG risks and opportunities in insurance company strategies and operations, including risk management, underwriting, product and service development, claims management, sales and marketing, and investment management (through the Principles for Responsible Investment).

Implementing the Principles and participation in the PSI Initiative will:

- Enable insurance companies to have a more complete understanding of material risks and holistic risk management practices in order to reduce risk, stimulate innovation and increase opportunities to enhance financial returns, business performance and company value
- Create a global forum for the insurance industry and the UN to establish thought leadership on ESG issues, risk management and insurance; to pool information, resources and best practices in managing ESG issues; and to foster inclusiveness across markets
- Promote cooperation on ESG issues where the insurance industry and its stakeholders needs to in order to reduce long-term and systemic risks, develop appropriate risk management approaches, risk transfer solutions and partnerships, and enhance the value of risk management and insurance to society
- Support the insurance industry in engaging with governments and regulators to ensure that relevant ESG issues are considered within prudential policy, regulatory and legal frameworks to benefit the insurance industry and society
- Build a more resilient, responsible and sustainable insurance industry to better serve all its stakeholders, and in partnership with the UN, accelerate the transition to a sustainable global economy and advance the goals of sustainable development

5. How do the Principles contribute to the goals of the United Nations?

As stated in the introduction of the PSI, the Principles enable the insurance industry to contribute more significantly to reducing long-term and systemic risks, to achieving a resource efficient, low carbon, inclusive and sustainable global economy, and to the sustainable development of societies. These aims are all consistent with UN goals and initiatives such as but not limited to the following:

- The UN Millennium Development Goals
- The Hyogo Framework for Action 2005-2015 – Building the resilience of nations and communities to disasters
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work

- The Rio Declaration on Environment and Development
- The Universal Declaration of Human Rights
- The UN Convention against Corruption
- The UN Convention on Biological Diversity
- The UN Framework Convention on Climate Change
- The UN Global Compact Principles
- The UNEP Green Economy Initiative
- The UNEP (through UNEP Finance Initiative) and UN Global Compact-backed Principles for Responsible Investment

6. What makes the PSI Initiative different from other initiatives?

There are many factors that make the PSI Initiative unique. Some are as follows:

- The Principles were designed by and for the insurance industry, not just the financial sector or business sector in general
- The Principles clearly recognise the unique business model of the insurance industry and the roles and responsibilities of insurance companies as risk managers, risk carriers and institutional investors
- The Principles are grounded on risks and opportunities and promote the goals of sustainable development
- The Principles are applicable to core insurance company operations and all lines of insurance, and relevant to all market players (i.e. risk carriers, risk intermediaries, risk service providers)
- The Principles were developed through a UN-facilitated, insurance industry-led and multi-stakeholder process which included consultation meetings in Africa, Asia, Europe, Latin America and the Caribbean, the Middle East and North Africa, North America, and Oceania. The meetings involved senior representatives from the insurance industry, governments and regulators, intergovernmental organisations, business and industry, civil society, and academia. Few initiatives can claim to have the legitimacy and transparency of having gone through such a truly global, consultative and multi-stakeholder process
- The Principles are not limited to addressing one issue, but encompass a wide range of current and emerging ESG issues. Therefore, the Principles represent a dynamic global best practice framework
- The PSI Initiative is not merely another insurance association—it is an innovative public-private partnership between the UN and the global insurance industry. For the insurance industry, there are considerable synergies in working with the UN system on ESG issues, policymaking and science, including UN-convened intergovernmental processes and links to member governments
- The PSI Initiative has a reporting, assessment and transparency framework to monitor and evaluate the progress of signatories in implementing the Principles. This framework also acts as an accountability and integrity mechanism for the Initiative, a learning tool to identify best practices and areas of improvement, and a foundation of insurer transparency. This framework helps ensure that the Principles and their implementation are treated as an issue of substance (not as a mere ‘statement of good intentions’) which needs to be measured and appraised

7. Why are the Principles for Responsible Investment (PRI) an integral component of the Principles for Sustainable Insurance (PSI)?

Investment management is a distinct core operation within an insurance company. The PRI provides the framework for the 'investment management side' of insurance company operations, while the PSI provides the framework for the 'insurance side' and bridges the two frameworks through Principle 1 of the PSI. Further, the introduction of the PSI clearly recognises the roles and responsibilities of the insurance industry as risk managers, risk carriers and institutional investors.

The case for integrating ESG issues into mainstream investment management has been gaining momentum and credence in recent years, and is increasingly being adopted within the insurance investment management industry. An insurance investment manager must set an investment strategy that factors in the liability side of the company's balance sheet, while a mainstream investment manager can often leave it to the client (the asset owner), or the client's advisors, to consider liabilities. Asset-liability management is therefore a key function of insurance investment management. Risk management is critical in insurance investment management to ensure that the insurance company holds sufficient reserves to meet future claims and benefits arising from its insurance business. Accordingly, the consideration of ESG issues in investment decision-making and ownership practices can help insurance investment managers better manage risk and identify new opportunities.

For insurance companies, by enhancing value creation through the systematic consideration of ESG issues in both their insurance and investment activities, they can enhance long-term, sustainable company value from the perspective of their investors as well.

The PSI has been designed to be aligned with and complementary to the PRI. Taken together, they form a holistic global best practice sustainability framework for the insurance industry.

For PSI signatories, it is recommended, but not mandatory, to be a PRI signatory.

8. Do the PSI and PRI complement the UN Global Compact Principles?

Yes. The UN Global Compact Principles serve as the overall value framework for UN cooperation and partnerships with the business sector, including the financial sector. The Principles are derived from universally-accepted principles in the areas of human rights, labour, environment and anti-corruption, and are applicable to all industry sectors.

Within the financial sector, the PSI and PRI provide UN-backed global frameworks designed by and for the insurance and investment industries, respectively. Both frameworks are aligned with and complement the goals of the UN Global Compact Principles in promoting the adoption of sustainable business practices globally.

It is not mandatory to be a signatory to the UN Global Compact Principles to sign on to the PSI or PRI, and vice versa.

9. How will the Principles help signatories in their day-to-day work?

The Principles provide signatories with a global best practice framework that facilitates the systematic consideration of ESG risks and opportunities in risk management and insurance decisions.

At the strategic level, the Principles underpin a company's risk framework and strategy. Signatories have a clear mandate from the Board and/or executive management to systematically consider ESG issues in business operations as an integral component of the company's business principles and strategies.

At the operational level, the Principles enable personnel across functional responsibilities (e.g. risk management, underwriting, product and service development, claims management, sales and marketing, investment management) to have an integrated approach in identifying, assessing, managing and monitoring material ESG issues in business lines, products and services. The actions for success for each Principle provide practical guidance on implementation. These actions help identify areas and processes where material gaps exist, and where knowledge and expertise on ESG issues is underdeveloped. Further, they can uncover opportunities and promote synergies within the organisation. Collectively, these actions will enable holistic risk management practices, stimulate innovative products, services and partnerships, and improve risk communication within the company, and between the company and its stakeholders.

Signing the Principles is only the first step—the PSI Initiative is an active network. At the heart of the Initiative are various work streams and a well-resourced PSI Secretariat that will support signatories in implementing the Principles, particularly as signatories develop strategies, policies and procedures for the systematic consideration of ESG issues in the insurance process.

Through the PSI Initiative, signatories will have access to UN system expertise on ESG issues, policymaking and science, a global network of insurance industry participants and stakeholders, collaborative opportunities, and practical guidance on managing ESG issues that would be otherwise unavailable or very limited. The PSI Initiative will encourage better practitioner and academic research on the impacts of ESG issues on the insurance business, which will improve risk management and drive innovative solutions.

The PSI Initiative will continuously build its capacity to provide high quality implementation support services to its signatories in order to facilitate the emergence of best practices. It seeks to establish a comprehensive knowledge hub of implementation resources and best practice guidelines spanning:

- All Principles
- Lines of insurance
- Insurance products and risk management services

- Environmental, social and governance issues
- Geographies (national, regional, international)
- Signatory categories (risk carriers, risk intermediaries, risk service providers)
- Insurance industry stakeholders (governments and regulators, intergovernmental organisations, business and industry, civil society, academia, the scientific community)

10. Which organisations can sign the Principles?

There are three signatory categories:

- **Risk carriers** – insurance, reinsurance and retrocession companies
- **Risk intermediaries** – agents, brokers
- **Risk service providers** – risk model vendors, rating agencies and other types of risk service providers (i.e. non-risk intermediaries) rendering services to risk carriers and risk intermediaries

Clear commitment from the top-level leadership of the organisation (i.e. Board, executive management) is required to sign on. Signatories self-select the category they fall into, but the PSI Board reserves the right to determine which category is appropriate.

[Note: Specific guidelines would need to be developed to address various signatory matters, including the fee structure and matters concerning parent, subsidiary, affiliate and associate companies (as in the case of insurance groups and financial services groups), companies that may fall into multiple categories, and institutions that may be relevant but do not fall into any of the categories.]

11. Does signing involve a financial commitment?

There is a [mandatory or voluntary] fee associated with signing the Principles. This will fund the work of the PSI Initiative and its Secretariat in supporting signatories implement the Principles and in promoting the adoption of the Principles globally.

The fee according to signatory category is scaled as follows:

- **Risk carriers** [according to gross premiums written]
- **Risk intermediaries and risk service providers** [according to total revenue]

[Note: Specific guidelines would need to be developed to address various signatory matters, including the fee structure and matters concerning parent, subsidiary, affiliate and associate companies (as in the case of insurance groups and financial services groups), companies that may fall into multiple categories, and institutions that may be relevant but do not fall into any of the categories.]

12. What resources will be required to implement the Principles?

Signatories will choose to implement the Principles in different ways, and those choices will affect resource requirements. At a minimum, signatories should allocate sufficient staff time and resources to properly understand the actions for success embedded in the Principles and how other signatories have implemented the Principles, and to begin the implementation process within their own organisations.

13. What do signatories commit to?

It is mandatory for a signatory to participate in the annual PSI Reporting, Assessment and Transparency Framework. This is an online survey that helps signatories evaluate progress in implementing each of the Principles. There is a grace period of a year to allow new signatories to learn from their peers and determine how best to monitor and report their progress.

[Note: This framework has yet to be developed and its scope and applicability may vary according to the signatory category.]

14. What happens if we sign but find it difficult to comply?

The Principles are not meant to be an end in itself, but a starting point for signatories to move towards achieving best practice. There are no legal or regulatory sanctions associated with the Principles—they are designed to be voluntary and aspirational. There may be reputation risks associated with signing on and then failing to take any action at all, but the commitments are, for most signatories, a work in progress and a direction to head in rather than a prescriptive checklist with which to comply.

The initial focus is on innovation, collaboration and learning by doing. The annual PSI Reporting, Assessment and Transparency Framework will help evaluate your organisation's progress in implementing the Principles. The minimum requirement to remain a signatory is participation in this framework, which is an opportunity to demonstrate continuous improvement. Failure to participate can result in being publicly delisted from the PSI Initiative.

15. Who governs and manages the PSI Initiative?

The PSI Initiative is governed by an insurance industry-led, multi-stakeholder Board primarily comprising Chief Executive Officers (or equivalent positions) from the insurance industry, together with the Executive Directors of the UN Environment Programme and the UN Global Compact [Note: Other UN agencies possible], and other stakeholders [Note: Possible stakeholder categories include governments and regulators, business and industry, civil society, academia, scientific community]. The PSI Board is global and has representatives from institutions in Africa, Asia, Europe, Latin America and the Caribbean, the Middle East and North Africa, North America, and Oceania. The Board oversees the strategic direction and progress of the Initiative. It meets XX a year and presides over the PSI Initiative's Annual General Meeting.

The PSI Initiative is managed by a professional Secretariat whose staff members are employed by the UN. The PSI Secretariat is headquartered in XX, and has branch offices [Note: These are possible offices directly managed and funded by the Initiative] and representative offices [Note: These are possible offices housed within and sponsored by, for example, national and regional insurance associations] in Africa, Asia, Europe, Latin America and the Caribbean, the Middle East and North Africa, North America, and Oceania.

The Board and Secretariat are supported by a PSI Sustainability Risk Advisory Committee that provides technical risk management and insurance advice to the Initiative. The Committee comprises technical insurance experts (e.g. Chief Underwriting Officers, Chief Risk Officers), insurance academics and economists, and regulatory and legal experts.

16. How can my organisation become a PSI signatory?

Send an e-mail attaching a letter signed by your organisation's Chief Executive Officer (or equivalent position) to the PSI Secretariat.

The letter should contain:

- A statement confirming your organisation's approval of the Principles
- Your organisation's commitment to take part in the mandatory annual PSI Reporting, Assessment and Transparency Framework
- Your organisation's motivation to sign on to the Principles and any expectations as a PSI signatory
- Brief information about your organisation
- The signatory category (i.e. risk carrier, risk intermediary, risk service provider)
- Your organisation's latest available gross premiums written and total assets (for risk carriers), and total revenue and total assets (for risk intermediaries and risk service providers)
- Your organisation's main PSI representative and alternate representative/s, including their position titles and full contact details

For more information, please contact: XX