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INSURERS INVESTING IN CLIMATE SOLUTIONS

Implications for Insurers as Large Long Term Investors

I'm honored to be back here at the UN, to participate in this landmark event today, and to provide some broad perspective on the issue of Insurers Investing in Climate Solutions. The reason I'm here has only partly to do with my role at the IIS, which has life and nonlife, stock and mutual, developed and emerging market members from 100 countries, but more because I've also been an insurance company chief investment officer. I have experience in striving for that balance that must be found between generating a portfolio return that's adequate for policyholder and capital provider obligations, and yet recognizing the increasingly urgent resilience issues that the COP21 conference highlighted.

There are many exciting opportunities for insurers to use their risk assessment, pricing, transfer and advisory capabilities to help build a more resilient world. THAT industry skill set plays a significant role in such initiatives as the G7 InsureResilence Program, the UN Climate Resilience A2R Initiative (that is, anticipate, absorb and reshape risk), the UN's Principles for Sustainable Insurance program, the FSB Climate Risk Task Force, as well other international organizations' activities.

Our session today, however, is not on those activities, which may be viewed as related to the liability side of insurers' balance sheets, but rather with the asset side. The global insurance industry has approximately $35 trillion of invested assets, growing every day as the industry grows around the world. While a not insignificant percentage of this staggering amount is constrained by regulatory requirements and explicit policyholder obligations, the industry nonetheless has a huge amount of discretionary investable funds. An evolved attitude about allocation of these funds that considers climate solutions as an asset class, or at least an area of specific focus, would benefit both the industry and the world whose sustainability it requires to thrive. This evolution in investing practices must be underpinned by rigorous disclosure of the climate risk of potential investments, laid out very well in the 1-in-100 initiative, lest money not be directed to the most worthy funding candidates.

You are about to hear several incisive and complementary perspectives on this issue. From my vantage point, meeting with hundreds of insurance thought leaders and policymakers each year, there is reason for great optimism. I'm already seeing insurers make major commitments to development financing, building the infrastructure in the developing world and rebuilding it in developed countries. I'm seeing clean energy investments, mass transportation, food and water security, disaster preparedness systems, agriculture, building resilience in vulnerable communities, and others areas, in both fixed income and equity investments. And these are not acts of charity or corporate social responsibility: they are investments that stand on their own as providing an adequate ROI. And along with pension funds, insurers are best positioned to make the kind of investments a clean energy world needs, because of their long term liability structure and lower liquidity needs than other kinds of asset pools.

I got back last night from Beijing, where I spoke at the China Insurance Regulatory Commission annual conference. Recent pronouncements from the CIRC and China's State Council are harbingers of broader global support for our shared aspirations. Their new constitution for the insurance industry makes a very dramatic point that has global applicability: growth of the insurance industry should no longer be seen as derivative of economic growth, but as a driver of economic growth. Furthermore, China's 13th 5 Year Plan explicitly cite insurers' role as long term investors as a vital force in making the country and its citizens' lives better. I know other governments are starting to take this view as well.

And so, Momentum is building. Climate change is becoming an important driver of investment opportunities and strategies. At the same time, governments are increasingly looking to the private sector, especially insurance companies, to to augment public spending for climate mitigation and adaptation. While insurance is a diverse and fragmented industry, with companies at every point along the investment policy spectrum, from doing actual portfolio decarbonization, to just investing a portion of their new cash flow into climate smart or smart risk investments, the enormous power of the industry is clearly going to have a major, positive influence on the achievement of lasting climate solutions.

Thank you.