BUILDING THE FUTURE: HUMAN DEVELOPMENT, SUSTAINABILITY AND RESILIENCE

THE ROLE OF INSURANCE SECTOR

Dario Focarelli
Director General ANIA

Rome Investment Forum
Financing Long- Term Europe

Rome, 16th December 2017
THREE ASPECTS OF INSURERS’ CORPORATE SOCIAL RESPONSIBILITY

1. INSURERS AS ENTREPRENEURS
2. INSURERS AS RISK MANAGERS
3. INSURERS AS INVESTORS

Focus today will be on points 2. and 3.
1. **INSURERS AS RISK MANAGERS**

FUNDAMENTAL ASPECTS/PRINCIPLES:

- MUTUALITY
- RISK ASSESSMENT
- RISK PREVENTION

THE EXAMPLE OF CATASTROPHE RISK
CATASTROPHE RISK: NATURAL AND MAN-MADE

INSURED LOSSES (1970-2016)

Source: CAT PERILS and SWISS RE INSTITUTE
PROTECTION GAP FOR CATASTROPHE RISKS (1970-2016)

Source: CAT PERILS and SWISS RE INSTITUTE
ITALY: EXPOSURE TO NAT CAT RISK

78% OF HOMES IN ITALY ARE IN AREAS EXPOSED TO A HIGH (OR MEDIUM-HIGH) RISK OF EARTHQUAKE OR FLOODING

- **Earthquake**: 35% of Italian homes have a high exposure to seismic risk.
- **Flood**: 55% of Italian homes have a high exposure to flood risk.
- **Volcanism**: 2 active, 9 dormant, 9 extinct.

6 out of 10 most damaging earthquakes from 1970 to 2016 occurred in Italy.

78% of Italian homes have a high or medium-high exposure to seismic or flood risk.

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ECONOMIC LOSSES FROM NATURAL CATASTROPHES IN ITALY (1996-2016) AND RELATED PUBLIC FINANCING (1968-2012)

Cumulative economic losses from natural catastrophes in Italy (1996-2016)

Public financing for earthquake losses (1968-2012)

Impact of public financing for losses occurred more than 30 years ago is still being felt today

2017

Italia is the 6th country in the world in terms of cat losses in the last 20 years

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THREE BENEFITS OF AN INSURANCE SYSTEM FOR NAT-CAT RISK

1. COMPENSATING LOSSES AND AVOIDING LONG-TERM NEGATIVE IMPACTS WHEN DISASTERS STRIKE

2. STIMULATING ECONOMIC ACTIVITY BY REDUCING ACTUAL AND PERCEIVED DISASTER RISK

3. SOCIAL, ENVIRONMENTAL AND ECONOMIC CO-BENEFITS
REGULATORY SYSTEMS FOR DISASTER INSURANCE IN THE WORLD

Types of participation

Mandatory
- Islanda
- Turchia
- Romania

Semi-mandatory
- Danimarca
- Spagna
- Norvegia
- Nuova Zelanda
- Francia
- Belgio

Voluntary
- NFIP – USA
- California
- Cina
- UK
- Giappone
2. INSURERS AS INVESTORS

The insurance sector is the largest institutional investor in Europe, accounting for nearly €10 trillion in assets, or about 60% of EU GDP. At portfolio level, most sector liabilities are predictable and long-term.

The business model of the insurance sector is particularly suited to supporting sustainability. Insurance products enable households and firms to focus on the longer term, knowing that they have financial protection against possible short-term misfortunes.
SUSTAINABILITY AND REGULATION

Insurance is regulated by Solvency II, which is an advanced, comprehensive and complex framework for risk management. The move to a harmonised risk-based regime, combined with strengthened internal risk governance, has many positive points. But in the context of sustainable and long-term finance, the question arises whether the approach leads to excessive penalisation of long-term investments and/or illiquid assets.
The Solvency II Review 2018 aims, among other objectives, at “removing unjustified constraints to financing”.

• **Something has already been done**
  - more adequate treatment of infrastructures

• **More can be done in the near future:**
  - treatment of unrated debt, and
  - unlisted equities

• **And, in a more distant future:**
  - how to cope with the issue of volatility and procyclicality
As regards the notion of ‘sustainability’, the prudential regulatory regime for insurance companies set out in Solvency II does not as yet explicitly require sustainability issues to be addressed by firms or supervisors. Recognising sustainability issues more explicitly could facilitate investment in (green) infrastructure projects.
EUROPEAN COMMISSION’S PLAN

The European Commission intends to present a comprehensive Action Plan in March 2018, with initiatives to stimulate the market for sustainable financial products. These will include:

1. **Integrating sustainability considerations into the duties that asset managers and institutional investors have** towards those whose money they manage, to clarify the requirement to take into account risks related to environmental, social, and governance factors.

2. **Exploring the modalities of a 'green supporting factor' in prudential rules**, to boost investments. Lower capital charges would create incentives for investors to favour low-carbon investments or loans.

3. **Incorporating ESG (Environment, Social and Governance) factors into the mandate of supervisory authorities**, to enable them to monitor how financial institutions identify, report, and address environmental, social and governance risks.
ITALIAN INSURERS’ INITIATIVES

• “GREEN” PRODUCTS

• SUSTAINABLE INVESTMENT POLICIES

• ENVIRONMENTAL CERTIFICATIONS
WHAT ANIA IS DOING

• SUSTAINABLE FINANCE FORUM

• NATIONAL DIALOGUE FOR SUSTAINABLE FINANCE

• APPEAL ON CLIMATE CHANGE, 12TH DEC 2017
THANKS FOR YOUR ATTENTION

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