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The new bottom line: Environmental and Social Governance (ESG)

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What we will cover

- Ø What is ESG?
- Ø Understanding long term risk: measuring carbon risk and ESG
- Ø The link to performance: ESG and performance – do they correlate?
- Ø Fiduciary duty: is mainstream ESG incorporation in the interest of beneficiaries/policyholders?
- Ø Responsible investment – “why not” rather than “why”?
- Ø The role of actuaries...key takeaways / action points



Polling question # 1

What do you believe is the most important disruptive shift in trends that could occur broadly in the economy?

- A. Social change (e.g. aging, millennials, consumer preferences)
- B. Environmental trends (e.g. resource scarcity, low-carbon goals and climate change)
- C. Political trends including regulatory considerations (e.g. central bank strategy, Brexit, tax transparency)
- D. Economic trends (e.g. low interest rates, market volatility)



Polling question # 2

ESG risks are material financial risks?

- A. Strongly Agree
- B. Agree
- C. Disagree
- D. Strongly Disagree



Polling question # 3

I should be considering ESG risks within my work?

- A. Strongly Agree
- B. Agree
- C. Disagree
- D. Strongly Disagree



Polling question # 4

Do you think that climate change will significantly affect how the life industry operates a) before 2025?; b) before 2035?

- Yes
- No



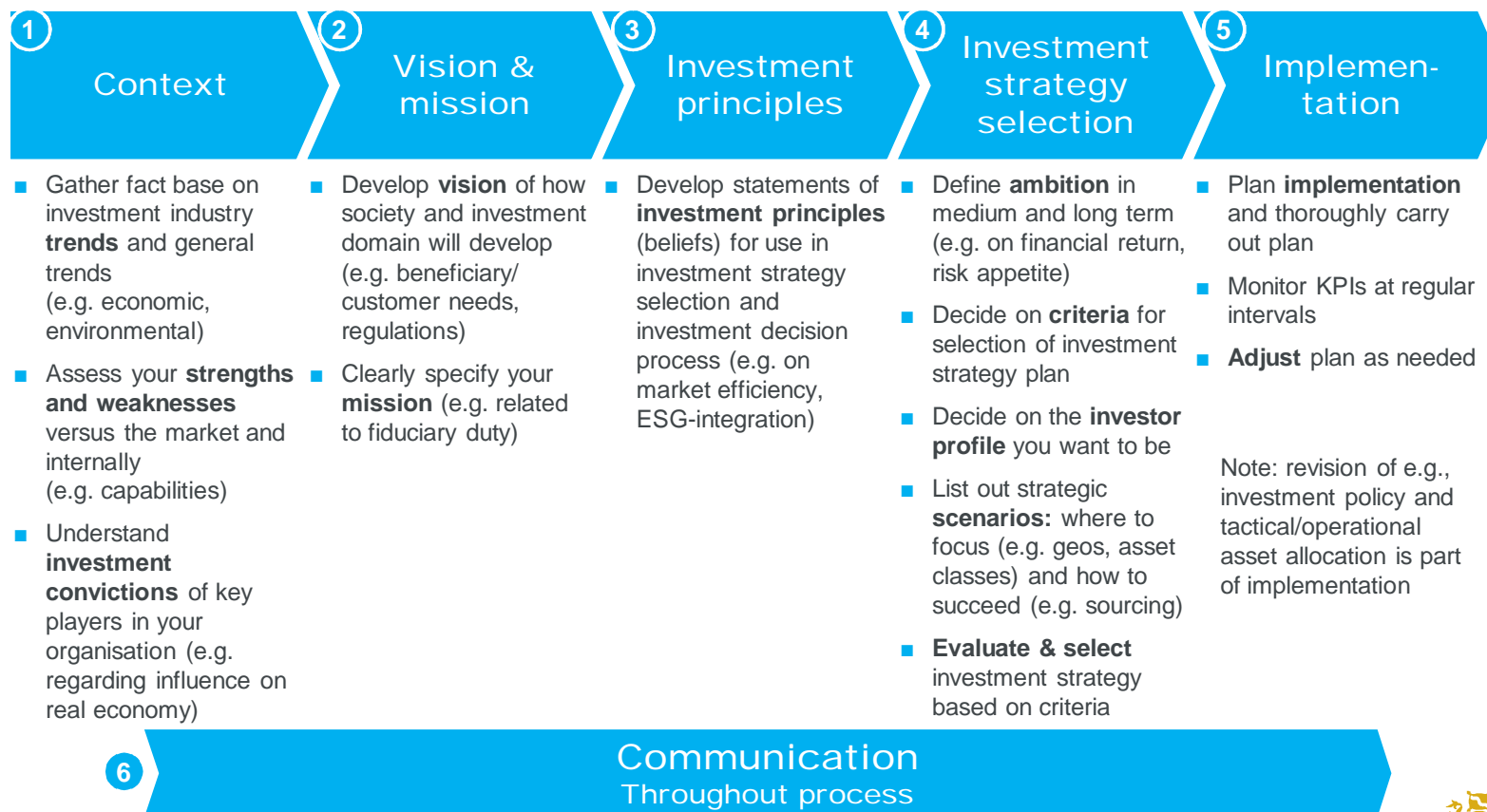
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Discussion themes

Crafting an ESG investment strategy



ESG/RI strategy must be part of core investment strategy process and not separate, parallel effort



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Waiting for climate change



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COP21 – time to act...

Timeline on climate action 1987-2016

1987	The World Commission on Environment and Development issues the report <i>Our Common Future</i> with the most commonly accepted definition of sustainability as: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."	
1991	The United Nations Framework Convention on Climate Change (UNFCCC) opens for signature at Rio Earth Summit in June, bringing the world together to curb greenhouse gas emissions and adapt to climate change.	1990
	UN General Assembly negotiations on a Framework Convention begin in December. The Intergovernmental Negotiating Committee (INC) held five sessions, where more than 150 states discussed binding commitments, targets and timetables for emissions reductions, financial mechanisms, technology transfer, and "common but differentiated" responsibilities of developed and developing countries.	1997
2001	The seventh Conference of the Parties (COP7), held in Marrakech in November 2001, formalized the agreement on operational rules for International Emissions Trading Association (IETA), the Clean Development Mechanism (CDM) and Joint Implementation (JI) along with a compliance regime and accounting procedures.	
2005	The UN-backed Principles for Responsible Investment (PRI) are launched, a catalyst for financial markets to adopt responsible investment approaches.	1997
2006	The Stern Review concludes that climate change damages global GDP by up to 20% if left unchecked, and climate change emerges on the global business agenda.	2002
2014	The European Union issues a new directive on nonfinancial reporting, requiring all large public interest entities with more than 500 employees to report on policies, risks and outcomes related to environmental, social and governance (ESG) matters.	2009
2015	In December 2015, the 21st Conference of the Parties (COP21) convenes countries and forms an agreement to limit temperature rise to two degrees. This may mean that far-reaching measures must be taken, such as limiting fossil fuel extraction, implementing carbon pricing mechanisms on a global level, and company disclosure on emissions intensity of asset portfolios.	2010
	The Cancun Agreement establishes the Green Climate Fund in December 2010.	2014
	The Intergovernmental Panel on Climate Change (IPCC) releases the synthesis report of its fifth assessment report, which underlined the urgency of climate action in March 2014.	2016
	In October 2016, the landmark Paris Agreement, requiring 55 countries representing 55% of global emissions of greenhouse gases, is ratified after 10 more countries formally endorse the deal.	

2014

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2014

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2015

In December 2015, the 21st Conference of the Parties (COP21) convenes countries and forms an agreement to limit temperature rise to two degrees. This may mean that far-reaching measures must be taken, such as limiting fossil fuel extraction, implementing carbon pricing mechanisms on a global level, and company disclosure on emissions intensity of asset portfolios.

2016

In October 2016, the landmark Paris Agreement, requiring 55 countries representing 55% of global emissions of greenhouse gases, is ratified after 10 more countries formally endorse the deal.



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What are we hearing?

Climate Change: Managing Risk and Uncertainty

Policy Briefing

theguardian

Carney warns of risks from climate change 'tragedy of the horizon'

Bank of England governor tells Lloyd's insurers that 'challenges currently posed by climate change pale in significance compared with what might come'

Guardian
sustainable
business

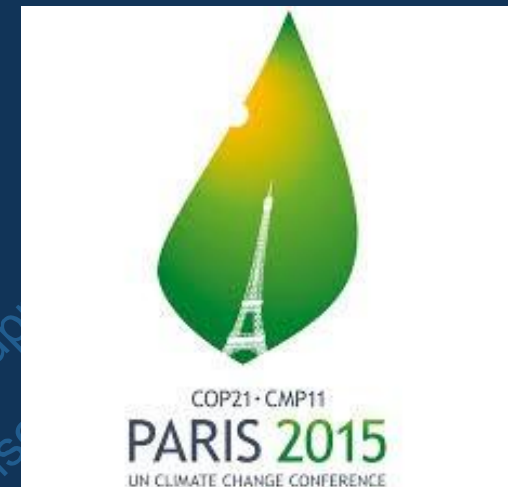
Climate change and resource scarcity
may wipe out pensions industry

Jo Confino

New report from Anglia Ruskin University shows that actuaries, charged with risk management in the financial sector, have ignored the greatest risk of all time



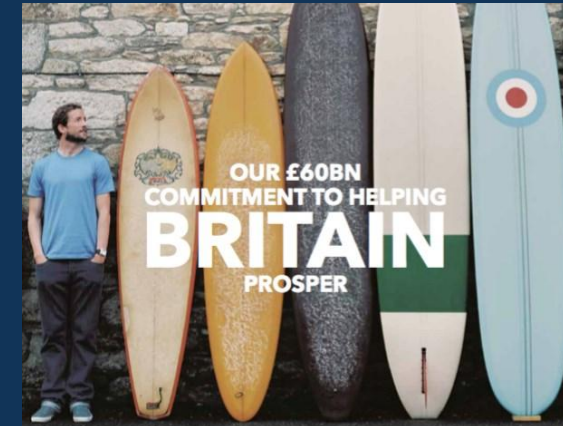
China to announce carbon trading plans
Xi Jinping to unveil cap-and-trade system in Washington that will affect businesses around the world





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What are we saying?



Climate change: a risk management problem

Each of the last three decades has been successively warmer than any preceding since 1850. According to the latest work from the Intergovernmental Panel on Climate Change (IPCC), the earth's average surface temperature is forecast to continue rising in the remainder of the 21st century

The 21st Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) in Paris in 2015 could be a critical step towards mitigating the risk that climate change poses. Efforts are focused on securing a global framework aimed at limiting the average global temperature increase to 2°C.

Until now neither the tail risks of climate change, nor discussion of uncertainty, has been as prominent as it should be.

A risk-based approach to climate change is required that takes uncertainty into account looking at both “what is likely to be” and “what if” (i.e. extremely bad or “tail risk”) scenarios.

Climate change should be approached as a risk management problem. An important goal of climate policy is therefore to limit the probability of a very bad outcome to an acceptably small value.



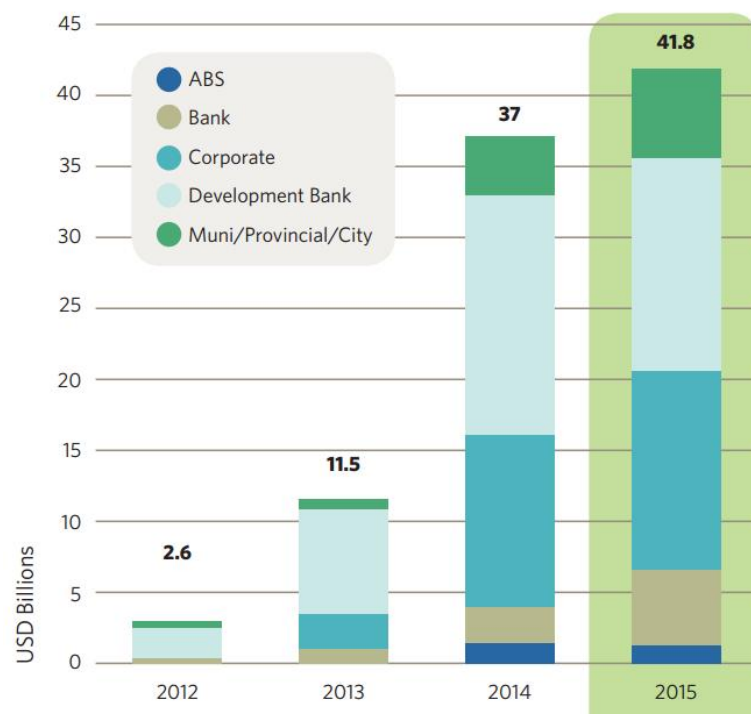
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Sharpening focus on stranded assets due to ESG factors

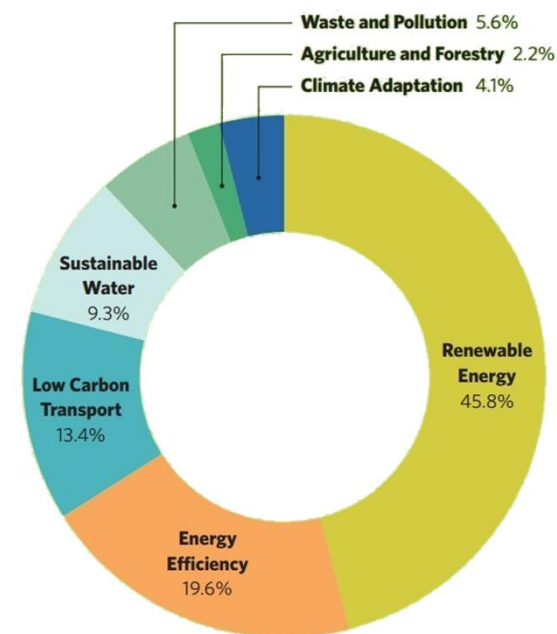


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Green bonds – market overview



2015 green bond proceeds



Source: Climate Bonds Initiative, 2015



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Polling question # 5

ESG risks are material and financial risks?

- A. Strongly Agree
- B. Agree
- C. Disagree
- D. Strongly Disagree



Polling question # 6

I should be considering ESG risks within my work?

- A. Strongly Agree
- B. Agree
- C. Disagree
- D. Strongly Disagree



Questions

Comments

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