UNEP **Finance Initiatives**
Innovative financing for sustainability

0.618...

UNEP FI Quarterly, Issue 1, June 2001

The golden ratio... building quantity without sacrificing quality

Why 0.618... ?

The new UNEP Finance Initiatives (FI) quarterly newsletter is named: "0.618..."

Many readers will ask "Why?". The reason behind our choice of name for the newsletter is given in Peter L. Bernstein's book: "Against The Gods. The Remarkable Story of Risk."

Bernstein explains: "The Greeks knew this proportion and called it "the golden mean." The golden mean defines the proportions of the Parthenon, the shape of playing cards and credit cards, and the proportions of the General Assembly Building at the United Nations in New York.... The golden mean also appears throughout nature – in flower patterns, the leaves of an artichoke, and the leaf stubs on a palm tree....."

Also known as the Fibonacci ratio, after the 13th century Italian mathematician of that name, the ratio defines the shape of a spiral that appears in some galaxies, in seashells and in the coil of ocean waves. The journalist William Hoffer has remarked: "the great golden spiral seems to be natures way of building quantity without sacrificing quality."

"0.618..." believes that – for financial institutions worldwide – the challenges and opportunities posed by sustainable development are centred around an ability to build wealth for shareholders and communities while contributing to the protection of the natural environment. For "0.618...", the golden ratio encapsulates the double edged nature of sustainability – the challenge and the opportunity – for banks, insurance and asset management communities.

continued on page 15

UNEP FI on the road to Rio+10

UNEP Finance Initiatives have launched their campaign towards the World Summit for Sustainable Development (WSSD) with a series of events and newly launched projects in the first half of 2001.

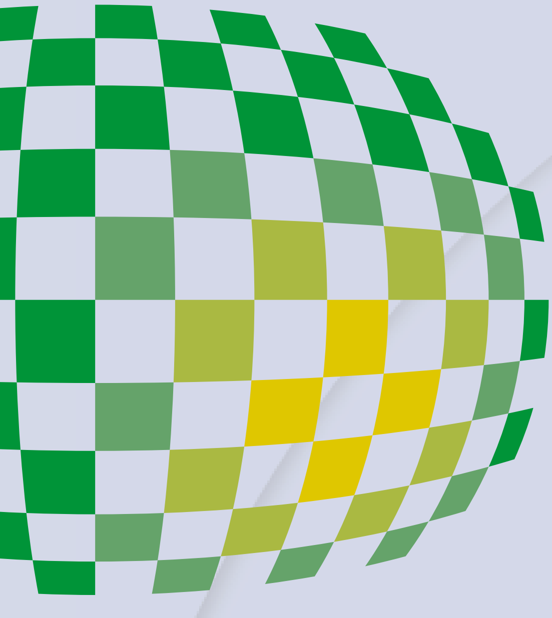
The re-launch of a renamed UNEP FI quarterly newsletter, "0.618...", is just one of several exciting developments for UNEP FI, a unique voluntary initiative between the worldwide financial sector – covering 275 banks, insurers and asset management concerns – and the United Nations Environment Programme.

Since April 2001, UNEP FI activities have included:

- A two-day, Asia-Pacific Conference (April 5-6) for 170 financiers from the region hosted in collaboration with the Department of Environment and Natural Resources (DENR) in the Philippines and HSBC Holdings plc. unepfi.net/mtgs/manila
- A half-day workshop, hosted by Citigroup, in New York City (April 20) for 35 executives and civil society representatives to explore the role UNEP FI can play to support North American financial institutions as they operationalise sustainability goals. unepfi.net/mtgs/newyork

continued on page 3

Manila, 5-6 April 2001



The Financial Sector
in Asia-Pacific

The Business Case for Sustainability Performance

Conference partners:

Republic of the Philippines Department of Environment and Natural Resources

Bangko Sentral ng Pilipinas (Central Bank of the Philippines)

Financial Executives Institute of the Philippines (FINEX)

Management Association of the Philippines (MAP)

Environment Australia

Hanns Seidel Foundation Germany

HSBC Holdings plc

PRESIDENT URGES INNOVATIVE FINANCING FOR SUSTAINABILITY

unepfi.net/mtgs/manila

H.E. President Gloria Macapagal Arroyo of The Philippines called upon banks, insurers and asset management companies to explore “innovative financing for sustainable development” during the 5-6 April UNEP Finance Initiatives Asia-Pacific regional conference in Manila.

Congratulating the five* Philippine institutions that signed the UNEP FI statement during the conference, The President stressed that partnerships will be the key to successfully achieving the goals of sustainability across the dynamic Asia-Pacific region. “ Alliances between the government and the private sector, or between business and communities, can pave the way towards the success of sustainable development initiatives,” stressed The President, whose message was delivered to the conference by Philippines Secretary for the Environment, H.E. Heherson Alvarez.

In his keynote address, Aman Mehta, Chief Executive Officer, The Hong Kong and Shanghai Banking Corporation Ltd – a lead sponsor for the event – said: “There is an inherent and growing responsibility on the shoulders of financial institutions and other businesses and therefore the leaders of these organisations to demonstrate that we can practice capitalism with a conscience.”

Highlighting the potential of environmental business, Mr Mehta added: “ The involvement of financial institutions in e-commerce – environmental commerce – is inevitable. Consider the trading of emission permits for example. Such market mechanisms are being an increasingly accepted way of minimizing extra cost to industry and maximising the incentive towards innovation.”

The two day conference, entitled “The Finance Sector in Asia-Pacific: The Business Case for Sustainability Performance”, launched UNEP FI’s preparations for the 2002 World Summit for Sustainable Development (WSSD). The Manila event attracted more than 170 participants from the finance sector, government, and civil society in the Asia-Pacific region. The Asia-Pacific conference launched a series of UNEP FI outreach events with

four more planned for Latin America, Africa, the Economies in Transition, and the Gulf States. These conferences will take place before May 2002.

UNEP FI SPDP Training Courses Launched

On day two of the conference, during an interactive workshop, UNEP FI Co-ordinator Paul Clements-Hunt and consultant Franz Knecht launched the UNEP FI Sustainability Performance Development Programme (SPDP). "With SPDP we are seeking to create regionally specific training courses for finance sector practitioners keen to operationalise sustainability. The ultimate goal for SPDP is to create a modular training course with components engineered to the sustainability needs of the different regions. We launched SPDP in Manila and will be holding our first SPDP training week in Bangkok later in the year (October 29-November 1). SPDP will be taken to Latin America, Africa, the Economies in Transition and the Gulf States in a similar way to develop a training course which serves the regional needs of the finance sector."

Themes covered during the conference – by means of eight parallel sessions – included:

- Market Trends and Best Environmental Performers in the Finance Sector
- Financing the Environmental Needs of Asia-Pacific
- Regulations, Reporting and Implications for the Finance Sector
- Thinking Globally, Acting Globally – The Finance Sector's Critical Role in Sustainable Development

Commenting on the conference, Terry A'Hearn, Victoria Environment Protection Authority, Australia, said: "This was an excellent event with a well crafted agenda and strong speakers from across Asia-Pacific. The SPDP training course is certainly something we'd be looking to bring to Australia in due course. UNEP FI should be congratulated for a great launch to their preparations for Rio+10 next year."

*New Philippine signatories: Global Business Bank; Metropolitan Bank and Trust Company; Philippine Bank of Communications; Planters Development Bank; and Rizal Development Corporation.

Existing Philippine signatories: Bank of Philippine Islands; Development Bank of the Philippines; and Land Bank of the Philippines.

continued from page 1

- A working meeting in Paris (May 3) with experts from the insurance and re-insurance industry to explore the possibility of launching a project with the Global Environment Facility (GEF) to promote development of innovative insurance products which support sustainability.
- The commencement of work to develop the global finance sector's report for the Rio+10 meeting. This 64-page report, developed in line with a framework created by the UNEP Division of Technology, Industry and Economics (DTIE) in Paris, will be published in March 2002.
- Launched the development of a training course entitled Sustainability Performance Development Programme (SPDP), specifically tailored to the needs of finance sector professionals in the developing world and economies in transition.

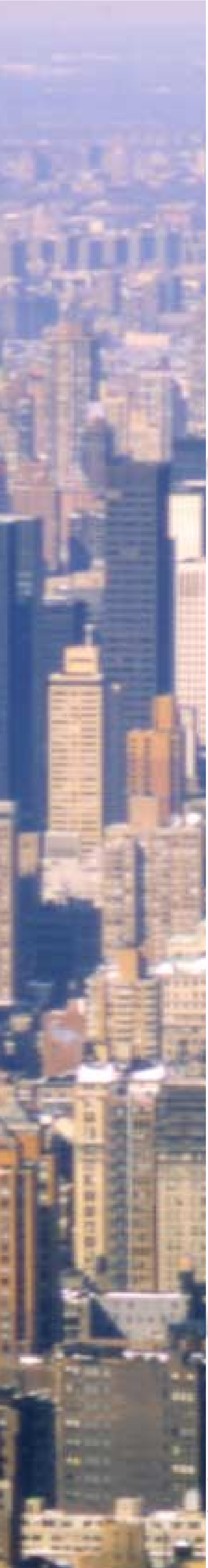
The 20-strong UNEP FI joint steering committees, representing the UNEP Financial Institutions (FII) and the UNEP Insurance Industry Initiative (III), meets next in London on 25 June to take further steps to implement the ambitious new work programme. The 2001-2002 programme, packed with plans for UNEP FI events, publications, and projects, was approved unanimously by the committees during their last meeting in Frankfurt on February 13.

Richard Cooper, Lloyds TSB, and co-chair of the FII, commented: "The activities planned for 2001-2002 are ambitious but as the pivotal World Summit for Sustainable Development (WSSD) will shape the environmental and sustainable development agenda for the next decade, UNEP FI has to deliver real substance at the event."

Walter Jakobi, Gerling Group, Chair of the III, added: "The insurance and re-insurance sectors are increasingly engaged in the sustainability debate and UNEP III ensures we play an active role in intergovernmental negotiations, allows us to disseminate best practice models, and creates an excellent forum for information exchange. Our sector's role in the drive to sustainability is crucial."

UNEP FI's three key work groups, covering Asset Management, Climate Change and Environmental Management and Reporting, will continue to develop detailed work programmes.

For further details on working group programmes see unepfi.net/wkgrp



Overview of New York City workshop

Hosted by Citigroup

unepfi.net/mtgs/newyork

On 20 April 2001, Citigroup hosted a workshop in New York enabling 35 finance sector executives and civil society observers to explore the role UNEP FI can play to foster best sustainability practice amongst institutions in North America.

The workshop, under the theme "Supporting the UNEP Finance Initiatives: The North American Business Case," catalysed the formation of a new UNEP FI Task Force with the mandate to further develop the initiatives' outreach in North America. Twelve executives and finance sector association members have offered to take an active role in promoting UNEP FI in the USA and Canada.

Participants presented several recommendations for UNEP FI to provide practical support to North American institutions that are striving to operationalise sustainability. These included calls to:

- Bring the business case to the CEO level in North America.
- Develop practical tools that assist operational executives who drive the sustainability case in their institutions.
- Show the up-side opportunities of new sustainability markets and build a more positive business case to persuade senior finance sector executives of the win-win nature of adopting sustainability at the heart of their core business operations.

Jacqueline Aloisi de Larderel, Director, UNEP Division for Technology, Industry and Economics (DTIE), joined Iris Gold, Citigroup, to open the workshop at Citigroup Centre.

Ms de Larderel said it was critical that UNEP FI secure additional supporting member companies in North America to build on the excellent work of companies like Citigroup. The Director commented that: "With just 18 months before the World Summit for Sustainable Development in South Africa, there is a great opportunity for more North American institutions to become active in UNEP FI and to play a leading role in the process to create innovative financing for sustainability,".

Presentations are available online:

- Rob Lake, Henderson Global Investors, Chair of the UNEP FI working group on Asset Management, highlighted the critical sustainability challenges which an increasing number of European companies are facing and the developing role for asset managers to press the case for improved sustainability performance.
- Paul Hagen, Chair , International Environmental Practice Group, Beveridge & Diamond, P.C., explored the role of international financial institutions in promoting sustainability goals through their lending activities and against a background of increasing private capital flows to the developing world.
- John L. Cusack, CEO, Innovest Strategic Value Advisors Inc, explored the impact on business of the increasing focus on environmental and social considerations and the efforts underway to correlate performance with market value.

Following the workshop, Paul Clements-Hunt, Co-ordinator, UNEP Finance Initiatives, commented: " We are delighted that the workshop has resulted in the creation of a new North American task force. A clear message that came from the workshop was the role that UNEP FI can play to provide executives with the information, data, and arguments to make the business case for sustainability performance to their most senior management. The new task force will shape a realistic work programme in coming months to ensure that UNEP FI provides executives and institutions in North America with the kind of support they require."

The UNEP brief

The United Nations Environment Programme

www.unep.org

The United Nations Environment Programme (UNEP) is built on a heritage of service to the environment. As one of the productive consequences of the 1972 Stockholm Conference on the Human Environment, UNEP provides an integrative and interactive mechanism through which a large number of separate efforts by intergovernmental, non-governmental, national and regional bodies in the service of the environment are reinforced and interrelated.

Today, 29 years after the Stockholm Conference and nine years after the 1992 Rio Earth Summit, the challenge before UNEP is to further catalyze action for sustainable development.

The Division of Technology, Industry and Economics

www.uneptie.org

In 1998, in response to a growing need to provide an integrated response to industrial and urban issues, four offices of the United Nations Environment Programme were brought together under a new Division of Technology, Industry and Economics (UNEP DTIE). Here 0.618… highlights a number of key DTIE activities.

Cleaner Production

www.uneptie.org/Cp2

In 1989 the UNEP Governing Council launched the UNEP Cleaner Production programme with the aim of integrating preventative environmental strategies into processes, products and services to increase their efficiency and reduce the human and environmental risks that their production may pose.

In order to achieve this goal, DTIE promotes cleaner production investments in the developing world, coordinates National Cleaner Production Centres and holds working groups worldwide. These activities are augmented by concrete projects including: online databases for cleaner production; the enforcement of the International Declaration on Cleaner Production; and the organisation of worldwide seminars on cleaner production.

Global Reporting Initiative (GRI)

www.globalreporting.org

In 1997, The Tellus Institute and The Coalition for Environmentally Responsible Economies (CERES) collaborated to establish the GRI. Shortly afterwards UNEP joined GRI as a principal player and today convenes the GRI with CERES.

Energy

www.unepie.org/energy

UNEP DTIE Energy addresses the environmental consequences of energy production and use. Specifically, its mission is to increase the global use of renewable energy resources, increase energy end-use efficiency and improve the overall planning and management of energy systems.

UNEP Energy is currently expanding its transport-related activities through The Mobility Forum. The Mobility Forum is a new voluntary initiative that will provide the means for DTIE's Energy and OzonAction Unit to strengthen communication and co-operation between the automotive industry, consumers and governments.

Production and Consumption

www.uneptie.org/hp_pc.html

The Production and Consumption Unit of DTIE is dedicated to cleaner, safer production and sustainable consumption in order to emphasize that the entire life cycle of a product or service needs to be addressed in order to achieve sustainable development and poverty alleviation.

The Sustainable Consumption programme focuses on understanding the forces that drive consumption patterns around the world and how those findings can be translated into tangible activities for business and stakeholders.

UNEP is committed to creating synergies across sectors by facilitating broad access to sustainable development solutions. "The UNEP Brief" is a regular column in 0.618… that highlights these synergies by showcasing the diversity of ideas and creative solutions across UNEP and specifically within the Division of Technology, Industry and Economics.

The Development Bank of Japan:

COMMITTED TO GLOBAL ENVIRONMENT ISSUES

In June 2001, The Development Bank of Japan (DBJ) became the first Japanese bank to sign the UNEP Statement by Financial Institutions on the Environment and Sustainable Development.

The Development Bank of Japan (DBJ) is a policy-based finance institution that has contributed to the development of the Japanese economy over half a century through long-term financing. DBJ has a long history of involvement in environmental management since its establishment in 1951.

As well as collaborating with Japanese ministries in formulating effective policy lending, DBJ works closely with the private sector to promote environmentally sound investment. For example, they extend loans for anti-pollution and energy-saving equipment; promote the use of renewable resources; and further the development of green technology.

A spokesperson added: "DBJ views our signature of the UNEP FII and the inherent strengthening of commitment to environment issues as particularly relevant to its viability and profitability as an organisation."

DBJ conducts both academic and practical research, for example, their Center on Global Warming developed a large-scale econometric model showing various impacts of a carbon tax on the Japanese economy.

EcoSecurities joins UNEP FII

EcoSecurities, a financial advisory firm in the fields of climate change, emissions trading and the use of the flexibility mechanisms, joined the UNEP Financial Institutions Initiative as an Associate Member during a signing ceremony in London on 25 June, 2001.

EcoSecurities director of Financial Advisory Services, Lionel Fretz, commented "This move reflects the growing synergies in financial markets between Sustainable Development and Climate Change. We believe that Financial Institutions will have an increasingly important role to play in enabling sustainable development, and face a significant threat to their business if they do not".

EcoSecurities

EcoSecurities is a global firm specialising solely in Climate Change Policy, the development of Emissions Trading systems, and the use of the Kyoto Flexibility Mechanisms. Over the past four years, EcoSecurities international offices (currently in UK, Europe, US, Brazil and Australia) have advised companies, governments, international organisations and technology vendors throughout the world on the likelihood and consequences of emissions trading.

UNEP FI activity in Australia

www.epa.vic.gov.au

The Victoria Environmental Protection Authority (EPA), Australia, hosted two conferences in March 2001 as its first major joint activity with UNEP FI following signature of a Memorandum of Understanding (MOU) in late 2000.

In addition to the Sydney and Melbourne conferences, which concentrated on environmental credit risk and socially responsible investment, the EPA organised a series of meetings with financial institutions, government representatives and the business community.

Commenting on the events, Richard Cooper of Lloyds TSB and co-chair of the Financial Institutions Initiative said "the trip was hectic, but a great success. Terry A'Hearn of the EPA has worked very hard to successfully engage the financial services sector in the environmental debate and it is evident that the sector is responding positively".

The MOU was signed at UNEP FI's Annual Roundtable in Frankfurt in November 2000 on behalf of EPA by its Senior Economist, Terry A'Hearn, and on behalf of UNEP FI by Jacqueline Aloisi de Larderel, Director, UNEP Division of Technology, Industry and Economics.

Under the MOU, EPA Victoria will co-ordinate and promote all UNEP Finance Initiatives activities in Australasia. The MOU builds on the fact that in February 2000, EPA Victoria hosted the first UNEP Regional Conference held in Melbourne. EPA Victoria is well connected in Asia-Pacific, with strong linkages to the Asian Development Bank, Osaka EPA and a wide range of other regional bodies.

There are various initiatives already underway in the Australasian finance sector including Westpac Bank's Eco Share Fund and Bendigo Bank's Ethical Investment Fund.

A key initiative under the MOU establishes a series of four advisory committees covering the following four topics: Socially Responsible Investment; Environmental Credit Risk Assessment; Insurance; and Operational Environmental Management.

For further information please contact Helen Bloustein, Tel 61 3 9695 2687, helen.bloustein@epa.vic.gov.au or Gabrielle McCorkell, Tel. 61 3 9695 2538. gabrielle.mccorkell@epa.vic.gov.au

Caisse des Dépôts signs UNEP FI declaration

Caisse des Dépôts, a French public financial institution created in 1816, carries out both public service and general interest missions entrusted by the State to public institutions and businesses through its specialised subsidiaries. Focus on the long term has been the CdD rule of conduct for almost 200 years. CdD has worked with industry, local authorities and government to finance the necessary infrastructure for French society to progress.

CdD public service work covers the management of savings used to finance:

- social housing and urban regeneration;
- public retirement plan administration;
- and management of funds requiring particular protection.

Other activities include supporting public policies on: small and medium enterprises; job creation and development; urban regeneration; local development; and the fight against banking and financial exclusion. CdD's open-market businesses are: investment banking; life insurance; local development services; and engineering subsidiaries.

CdD has already publicly demonstrated its commitment to sustainable development by:

- Signing a charter for sustainable development with other public-sector enterprises "Charte des entreprises publiques pour le développement durable" – October 1999;
- Adhering to the United Nations Global Compact on corporate responsibility in the fields of human rights, labour rights and the protection of the environment – June 2000
- Strengthening our support to the European business network for social cohesion (CSR Europe) – November 2000.

CdD has incorporated sustainable development in its Management Charter, signed by each senior executive. The operational objectives of CdD's businesses now explicitly include action in favour of sustainable development.

A CdD spokesperson said: "In joining UNEP FII, we wish to contribute further to building solutions and spreading the word for a more responsible approach to global economic development. We have a particular concern for the waste in resources which results from social and economic exclusion, constituting a potential threat to the sustainability of economic development. We are committed to promoting awareness of the key role of the financial sector in providing means for both economic, social and environmentally friendly development. We must encourage the financial sector to widen access to its services and recognise its responsibilities to the entire community by promoting socially responsible investing and continuing to support the development of socially responsible corporate rating".

Through a different lens

"Through a different lens..." is a regular column in 0.618... that drives below the surface of the sustainability and finance debate and examines the issues from an academic perspective or from that of a guest writer. In this issue, three American scholars examine the views of the United States insurance industry on climate change.

Insurers not of one mind on climate change

Evan Mills, Eugene Lecomte, and Andrew Peara

According to the Munich Reinsurance Company, the world's nations have endured nearly one trillion dollars in economic losses (and 170,000 fatalities) due to 8800 natural disasters over the past fifteen years. Three-quarters of the loss costs were weather-related, and a fifth were insured. Over the past 50 years, the number of weather-related natural disasters has been steadily rising, as have the total and insured losses. Nearly 60% of these losses are visited on U.S.-based companies, and between 1970 and 1999 losses (adjusted for inflation) grew nine-times faster than population. Meanwhile, the insured fraction of total losses has increased steadily, as has the size of those losses in relation to premium income. Bankruptcies of large and small insurers alike have been triggered by weather-related natural disasters.

Vulnerability

Weather-related events touch a surprisingly diverse set of insurance providers, although the degree of vulnerability varies substantially. Property insurers are more vulnerable than are life and health insurers, and within the diverse property segment some insurance lines are more vulnerable than others. While the total available reserves are large compared to catastrophe losses experienced in the past, not all of these funds are available to pay such losses. In fact, in the U.S. about 90% of these reserves are associated with types of insurance that have relatively little if any weather-related exposure (e.g. workers compensation, medical malpractice, liability).

The effects of increased losses can lead to upward pressure on insurance reserves and prices, the sensitivity of insurers' stock prices to major weather-related events, and an increasing number of insolvencies. Large and small insurers alike have been impacted by weather extremes and will be more so in the future if the frequency or intensity of weather-related events increases. The continued insurability of such risks is a central question, especially given that most experts – and the Intergovernmental Panel on Climate Change (IPCC) – project increases in extreme events going forward.

One of the vexing dilemmas facing insurers is the difficulty of disentangling the causes of weather-related loss events. This is especially true for those potentially related to human-induced climatic change versus natural climate cycles, and those having to do with human activity that could accelerate or dampen the process (demographic trends, increasing property values, disaster mitigation efforts, etc.). In many cases, upward trends in losses have shown to be a product of both human and climatological factors, but an in-depth understanding is hampered by technical complexity and insufficient information. Compounding the problem, climate change research is rarely conducted with insurers in mind. Importantly, the most recent assessment from the IPCC reports that certainty of past and future climate changes is higher than ever and that impacts on natural and human systems are already perceptible. The IPCC report looked at insurer vulnerabilities in some depth.

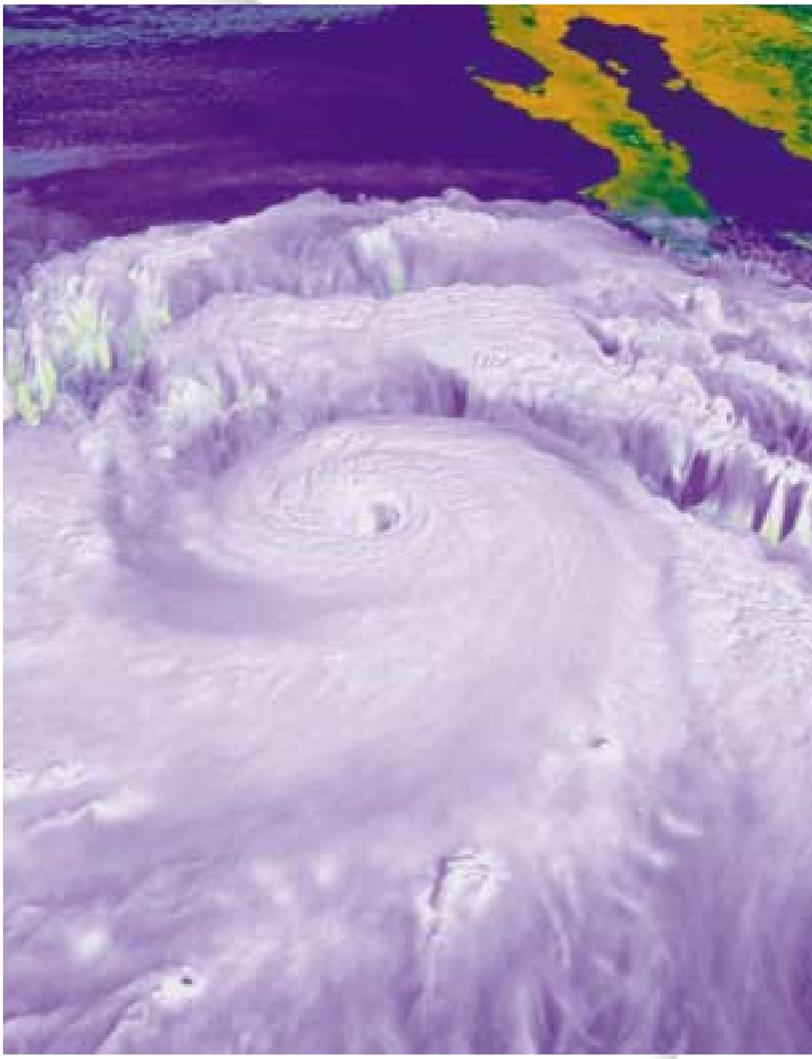
While a number have given some attention to the issue, the vast majority of individual firms and many trade organizations have not indicated an opinion (at least not in the public forum). A few have taken definitive positions that there is a material threat, while others have adopted equally strong views to the contrary. Some have elected to pursue research and the fortification of society against climate change, and others to adopt a "wait-and-see" stance. U.S. insurer involvement in the issue was significantly greater in the mid-1990s than it is today, with many insurers paralyzed by conflicting reportage on the topic and skeptical about the political and scientific assessments of climate change.

Tools

Insurers have a number of tools for reducing their financial vulnerability. These include purchasing reinsurance, raising rates, non-renewal of existing policies, and the cessation of writing new policies. They may also limit their liability by capping amounts of insurance available, placing special limits of liability on coverage, providing coverage on an "actual cash value" basis (taking deductions for depreciation and/or betterment) instead of paying for the replacement cost, and increasing the deductibles paid by their customers. They may also pool their risks and strive to increase their investment income, and, if sufficiently burdened, reduce dividends to share and/or policyholders. Implementing some of these measures may require legislative or regulatory action and present possible political and market risks.

Meanwhile, insurers – in consort with other parties – also possess a diverse toolkit of engineering approaches to managing and minimizing the losses caused by natural hazards. These include use of geographic information systems to better understand and pinpoint risks, land-use planning, flood control programs, early warning systems, sustainable forest management, coastal defense, and wind-resistant construction techniques supported by building codes. However, some within the industry question whether even the combined effect of these types of loss control are sufficient.

Insurers are also able to transfer or share loss costs with governments, self-insureds, consumers, and to the capital markets. Insurers point out, rightfully, that not all risks are commercially insurable in a market economy. Seeking reductions in private sector insurance coverage for climate- and weather-related hazards produces increased pressure on government to assume the associated risks. Governments, however, have repeatedly shown reluctance to increase their existing insurance exposures and liabilities for providing disaster relief. This tension is a central dilemma facing society in the face of rising catastrophe losses, especially since government-insured crop and flood losses are particularly likely to increase under climate change.



Insurers have treated loss control as a relatively "local" enterprise, whereas it would entail a rather dramatic shift in self-perception for insurers to engage in the activity at a (literally) global scale. Moreover, we have seen no quantitative analyses of how climate changes could effect the "probable maximum loss" estimates upon which insurance pricing and planning rest.

With some notable exceptions, the preponderance of existing U.S. insurer activities fall in the area of pre- and post-disaster loss mitigation, rather than involvement in climate science or

*"Through a Different Lens…" is intended as an impartial forum for academics and guest writers, therefore the views expressed in Through a Different Lens are not necessarily those of the UNEP FI or of its signatories, nor does UNEP FI or its signatories take any responsibility for actions taken as a result of views or opinions expressed in this column.

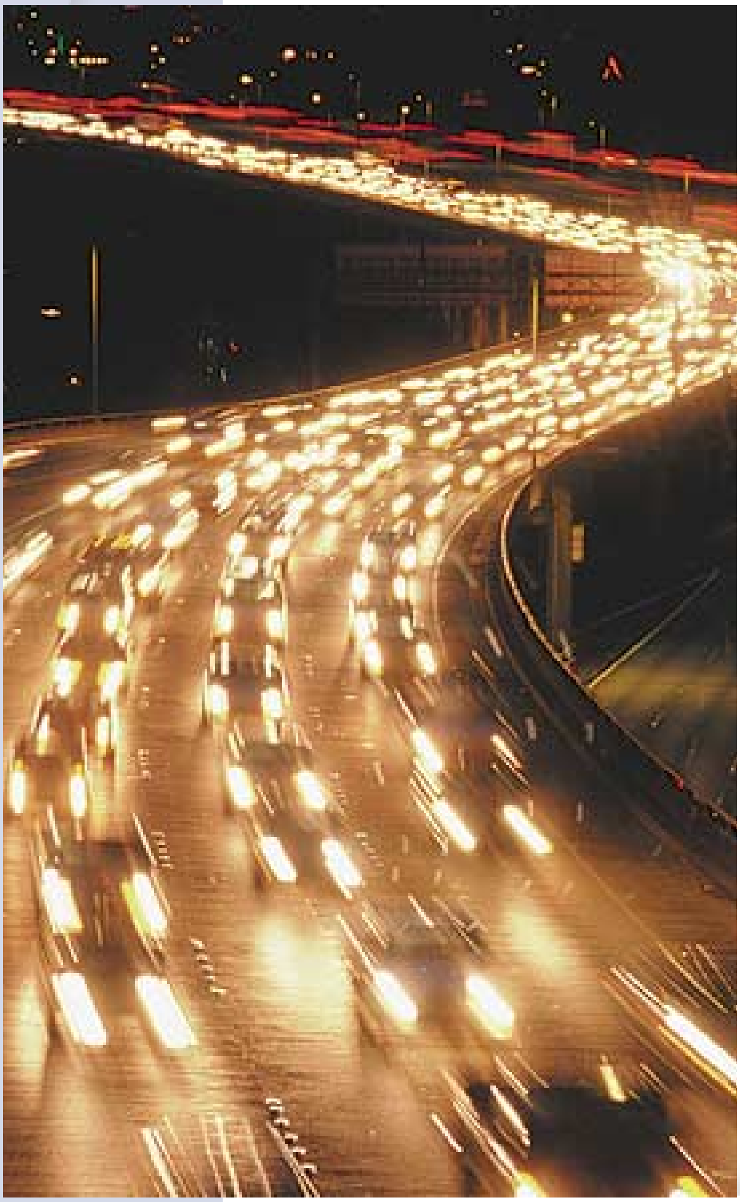
"The importance of probability can only be derived from the judgement that it is rational to be guided by it in action; and a practical dependence on it can only be justified by a judgement that in action we ought to act to take some account of it."

John Meynard Keynes.

mitigating the potential effects of climate change itself. An important semantic point is that while the climate-change research community uses the word "mitigation" to refer to measures that promise to reduce the process of climate change, the insurance community uses the term to refer to measures that reduce the likelihood of losses from climate-related (and other) events.

Points on the compass

Our in-depth interviews with insurance executives and extensive review of the literature found that insurers have assumed positions on all points of the public policy compass. Many of the insurance executives exhibit a genuine desire to make a contribution toward safe-guarding the public and their policyholders. However, most claim to lack the scientific knowledge needed to participate in the climate-change debate. Ironically, some stridently declare a lack of expertise and in the same breath state with authority that climate change is not taking place.



Over the past decade, U.S. insurers, to their credit, have been involved in a large number of activities in which the question of weather-related losses (and in some cases climate change itself) have been addressed. While this evidences considerably more involvement than many outside the insurance community are aware of, what does not emerge is a sense that these events have built upon one another towards some sort of consensus on the matter or towards a coordinated plan of action extending beyond preliminary discussion and fact-finding activities.

Given the potential for disruption caused by climate change, it is notable how limited U.S. insurer activities have been (at least as is evidenced in the public record) to analyze the problem. At the highest level, we discern three basic types of "perceptual barriers" to more in-depth insurer involvement and collaboration with non-insurer groups. These include: (1) uncertainties regarding the science of climate change, (2) distrust, emanating from parochialism and provincialism among stakeholders; and (3) lack of knowledge and the failure to fully understand stemming from insufficient dialog among stakeholder groups. Underlying these, we identify an extensive series of barriers that fall into the categories of "legal and regulatory", "technical and informational", "economic and market", and "political".

We touch on the sometimes remarkable differences between the activities and statements of U.S. and non-U.S. insurers. These include the relative weight of green marketing and green politics, the role of governments in natural disasters, conceptual approaches to loss prevention and mitigation, and the perception of new business opportunities presented by climate change risks. Likewise the regulatory role and tax-law environment, as well as the tone and tenor of government relations with insurers, and differences in corporate culture and the timeframes with which insurers measure their futures can differ dramatically among countries. It was 27 years ago that European insurers first articulated concern about climate change (16 years before their U.S. colleagues first publicly addressed the issue). Yet, it is also fair to say that, in a few select ways, U.S. insurers are ahead of their European counterparts.

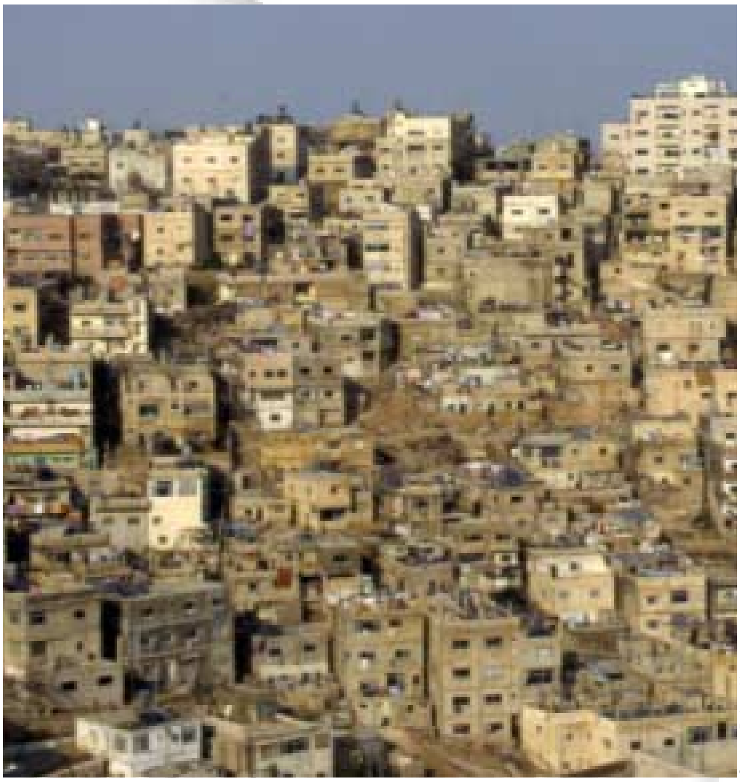
Non-insurer organizations in the U.S. often evidence little appreciation for differences in conditions faced by themselves and insurers. Although generally well intentioned, we find that efforts to involve insurers in the climate change discussion have met with very limited success. We believe that the problem stems in part from non-insurers' lack of knowledge about the intricacies of the insurance business, i.e., its history, regulation; the common misperception that insurers are a monolithic group and occasional overstatement of the facts on climate change. Meanwhile, mutual understanding is also hampered by insurer perceptions that these groups are politically rather than scientifically motivated or that non-insurers cannot bring true value to their core business.

Bridging the gap

It appears that differences in worldview and analytical orientation have served to separate many insurers and non-insurers on the question of climate change. Some of these differences may prove irreconcilable, but others certainly stand to be bridged through increased mutual understanding and interdisciplinary, cooperative research and inquiry. Both communities – and their constituencies – no doubt stand to benefit from engaging with the other in a more comprehensive dialog. From various quarters within the insurance community, we are already hearing a call for a more holistic approach, one that integrates no-regrets environmental protection with the discipline of disaster risk management.

This article summarizes an extensive report: "U.S. Insurance Industry Perspectives on Global Climate Change." Copies may be ordered at emills@lbl.gov.

This work was funded by the Assistant Secretary for Energy Efficiency and Renewable Energy, Office of Building Technologies and State and Community Programs, of the U.S. Department of Energy under Contract No. DE-AC03-76SF00098, and by the U.S. Environmental Protection Agency, Office of Economy and Environment and Office of Atmospheric Programs.



Award for new Credit Suisse Group environmental report 1999/2000

www.credit-suisse.com/sustainability

Credit Suisse were honoured during a recent presentation for the best environmental reports by Swiss companies. The reports were judged by environmental experts of PriceWaterhouseCoopers and an independent jury. The Group's new Environmental Report 1999/2000 came in third (out of 34 reports) in the large company category, after Canon and Sulzer. Martin Wetter, member of the Executive Board of Credit Suisse Banking and Environmental Officer of Credit Suisse Group, accepted the prize on behalf of the company. The full version of the new CSG Environmental Report 1999/2000 is only available online.

Yasuda Fire & Marine Insurance launch new website

www.yasuda-pavilion.com

Yasuda Fire & Marine Insurance Co. Ltd.(Tokyo, Japan) have just opened up the English version of their website. The purpose of this new site is to relay their primary message of 'Taking on environmental issues as part of all our lives'. The site is tailored for children, with special features such as 'EcoTheatre animation clips' that explain environmental issues in a simple and fun way to learn. Also featured is an 'EcoQuiz' as well as a Message Card service and Message Board. Through "Message Card Forest", they have set up a donation fund for environmental NGOs (for every card sent, 20 yen will be donated by Yasuda).

Emerio Terra

Wiring our way to sustainability

"Information is transparent today. Anyone with a Reuters Terminal and a phone is playing on pretty much the same level (and much less profitable) playing field as Goldman's highly trained, high octane traders ... so the ever-hungry marketers are creeping out into the less well known but potentially more lucrative territory: the developing country world."

Jon Corzine,
Former CEO of Goldman Sachs.

On the Digital Divide.

The goal of technology is efficiency. It makes it easier for us to exchange goods and information. With every new telephone line, every new fiber optic cable and every new computer, the world becomes a smaller place and the global market becomes more efficient.

This efficiency also lies at the heart of sustainable development. Market efficiency begets economic efficiency, and with the resulting savings a corresponding surplus of activity arises that can be set aside to decrease the impact of our markets and ensure that natural and economic capital is reserved for future generations. (See "Linkages" to learn more about how the UNEP Global E-Sustainability Initiative is making this happen).

But many markets in the world are far from efficient, in fact, 42 percent of the world's population have never used a telephone. To many people, this situation is a major problem. To others, it is a major opportunity.

Bruce McConnell, President of McConnell International Consulting, sides with the second point of view, stating that "for high tech companies looking to wire developing countries there are great possibilities to make money and move the world in the right direction."

Admittedly, recent figures from the International Telecommunication Union (ITU) suggest that for many of the poorest nations telecommunications convergence to present rates of connectivity in the richest nations remains between 50 and 100 years away. Klaus Schwab, founder of the World Economic Forum, notes three key prerequisites for growth in the

Linkages
The UNEP Global E-Sustainability Initiative

www.gesi.org

Launched on June 5, 2001, the UNEP Global E-Sustainability Initiative (GeSI) is a voluntary initiative - similar to the UNEP FI - that tackles the linkages between the Information Communication Technology sector and sustainable development. "At a time in history when our technologies are bringing people closer together it follows that businesses also work together to contribute to the societies within which they operate," says Chris Tuppen, Chair of the Interim GeSI steering group. "The launch of GeSI will build on existing voluntary activities and act as the focus for a global network of companies and organisations working on sustainability issues in the ICT sector."

Over the next two years, the GeSI will support research on the role that information and communications technology can play in advancing sustainable development – climate change, waste reduction and the digital divide are among the main issues that will be addressed first. Participating companies are also looking into how best to "outreach" their knowledge and experience to enable businesses around the world to take new opportunities and expand markets while displaying corporate social and environmental responsibility at the same time.

As an industry, telecommunications appears to be relatively clean. However, as many other industries, it consumes vast amounts of energy, generates waste and affects the physical environment in various ways. Responding to this challenge, the GeSI encourages corporate environmental monitoring and the sharing of best practices like reducing and recycling of waste, saving energy and developing products "designed for the environment."

For more information contact: gesi@unep.fr, or phone: +33.1.44.37.14.50

ICT (Information communication Technology) sector: access; education; and entrepreneurship. The poorest nations need to develop these basic prerequisites before they can establish and maintain profitable communications networks.

However, many other nations are taking positive steps to build and expand on these prerequisites. According to a report from the UK based consulting firm Knowledge Societies:

"Developing countries are improving their capabilities to use ICTs to provide the infrastructure for modern business. It is believed that such investments will assist domestic companies to integrate with the global economy and enhance the prospects for foreign direct investment." (Mansell, When, 1997:20)

It is these investments, ranging from mobile telephone networks in South America to fledgling internet service providers in India and their potential for growth that deserve a closer look.

A Return on Investment.

The driving force behind the development of ICT is investment. In developing nations this investment is shifting from long-term government financing towards shorter term private investments made in a commercial framework, thus increasing the opportunities for private investors.

One observer suggests that the four most important indicators for determining foreign direct investment in ICT are: for profit expectations; for market expectations; for investment requirements per unit of revenue; and most importantly, taxes on telecommunications revenue.

For profit expectations and for market expectations relate to the demand side for ICT, something that developing nations certainly seem to have on their side. Take for example 1990-95 OECD statistics on the compound annual growth rate (CAGR) of the ICT market in the following nations:

North America: 9.4 %
Eastern Europe, Africa, Middle East: 10.6%
Western Europe: 15.6%
Latin America: 15.6%
Asia Pacific: 18.9%

While it is clear there is growth in ICT in all regions of the globe, it is interesting to note that some of the highest growth rates are found in developing nations.

In addition, examination of ITU (International Telecommunications Union) data on the percentage change of revenues in the region from 1990-94 provides an indication of return:

Asia: 62.3%
South America: 66.5%
Caribbean: 21.1%
Africa: 12.2%
Middle East: 18.5%

This astounding degree of market growth is also evident via ITU CAGR rates of telephone main lines, a key indicator of the growth in ICT capacity.

Low Income Nations: 27.4%
Lower Middle Income Nations: 8.2%
Upper Middle Income Nations: 8.2%
High Income Nations: 3.5%

These figures illustrate that the market in wealthier nations is becoming saturated whereas growth rates in developing nations show a dynamic potential for growth and thus return on investment while at the same time building the capacity for sustainabls business.

Investment requirements in ICT are extremely varied across the developing world and depend on a variety of political and socio-economic factors. Using the example of telephone lines, recent ITU data suggests that the vast majority of developing nations have investment costs per main line that are much lower than their wealthier counterparts.

Investment in more efficient and modern ICT infrastructure facilitates market growth through reducing transaction and production costs. If these benefits are distributed properly, the development of nations, while not assured, can certainly not be done harm. And, as the numbers show, these fledgling markets are more ripe than ever for a return on investment.

Jacob Malthouse is with UNEP FI in Geneva

Emerio terra, Latin for "to earn the earth" is a regular column in 0.618… that examines topics relating to emerging technologies and their impacts on our societies, our economies and our environment. This month, we examine the shape of emerging markets for communications infrastructure and their linkages to sustainability.

ECAs and the environment

UNEP FI, in collaboration with various Export Credit Agencies and UNEP Energy, is developing a workshop that will gather executives to examine environmental questions relevant to the finance, insurance and export guarantee sectors.

The thrust of the workshop will be the exchange of information and experience that will help participating companies and agencies integrate environmental concerns into their project approval processes. The one and a half day workshop is tentatively scheduled for mid October 2001 in Paris. It will cover four aspects relevant to ECA operations:

- Raising Environmental Awareness
- Task specific training
- Sustainability and Investment Instruments
- Environmental Professional Development Programme (EPDP).

For more information on this workshop contact: Mark Sanctuary at mark.sanctuary@unep.ch.

Morley Fund Management make a stand

Morley Fund Management, CGNU's fund management arm and one of the UK's largest holding circa 2.5% of the UK market, has said that from next year:

∑ They will expect all FTSE 100 companies, in all sectors, to have robust processes to minimise damaging environmental impacts. Morley therefore expects these companies to publish a comprehensive Environmental Report.

∑ Where FTSE 100 companies do not publish such a report, and after consultation as to management intentions, they will vote against the resolution to adopt the Report & Accounts.

∑ Morley also expects FTSE 250 companies in high risk sectors to produce an Environmental Report. Where such a report is not produced Morley will abstain on the resolution to adopt the Report & Accounts.

Morley will review the situation each year but it is likely that a harder stance will be taken, over time, to match the approach taken with the FTSE 100 companies.

Morley is the first company of its kind to take such a stand. CGNU is a member of Steering Committee to the UNEP Insurance Industry Initiative as well as chair of the Initiatives Working Group on Environmental Management and Reporting.

European Convention on Corporate Social Responsibility attracts high profile support

www.csreurope.org

The outcomes of the European Convention on Corporate Social Responsibility (November 2000), a major event hosted by CSR Europe left no doubt that Socially Responsible Investing (SRI) is an issue of growing importance. Contributions by Jean-François Théodore, Chair of Euronext, the first European Stock Exchange, and Daniel Lebègue, CEO Caisse Des Dépots et Consignations, were a highlight of the convention.

Mr. Théodore praised recent achievements in the field and suggested that for banks the possibility of offering green investments is only one way to contribute to CSR. Mr Lebèque called upon the financial sector to recognize these possibilities. He went on to add that financial institutions can play an important role by further promoting SRI in Europe, exploring the feasibility of a European Voluntary Banking Charter, and by promoting improvements in the financing of small and medium enterprises.

Ministers meet on environment and trade

German Environment Minister H.E: Juergen Tritten and Dr. Klaus Toepfer, UNEP's Executive Director co-chaired the Ministerial segment of a UNEP Economics and Trade Unit (ETU) meeting on 22 March, 2001.

UNEP ETU co-hosted with the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety a meeting which brought together senior officials in environment and trade for two days of presentations, discussions and working groups on the use of environmental and integrated assessments of trade liberalisation and other trade-related policies. The meeting discussed the integration of environment and trade policies; integrated assessment as a tool to achieve coherence at the national level; coherence at the international level; capacity building; and economic instruments. UNEP was encouraged to continue its efforts with more country projects as well as in-country training and awareness-raising with special consideration given to least developed countries and small island states.

Another recommendation resulting from the meeting was that UNEP in cooperation with UNCTAD establish a Working Group on Economic Instruments. The broad objectives of the Working Group are to provide technical support and guidance on the role of economic instruments in internalising environmental externalities as one policy tool to achieve environment and sustainable development objectives; assessment of the impacts of existing market incentives, including subsidies on the sound management of environmental and natural resources and the role of economic instruments in achieving the objectives of multilateral environmental agreements. The first meeting of the group was held on 18-19 June in Geneva.

Finance, Mining and Sustainability

Leaders of institutions who provide financing for many of the world's principal mining projects met in Washington to analyse critical problems facing the minerals industry.

The April 9, 2001 conference, sponsored by the World Bank, UNEP, and the Mining Minerals and Sustainable Development Project focussed on the role of financial institutions in the transition to a more sustainable model of development in the minerals sector.

World Bank President James Wolfensohn joined executives from a range of institutions to discuss problems in the sector, both low returns on capital and risks of catastrophic loss. Some 125 participants explored the relationship between these financial issues and broader social concerns about the industry's role in economic and social development, human rights and environmental issues.

Participants recognised the need to strengthen the business case for the financial industry to develop a better understanding of the environmental and social practices of the mining and minerals sector.

MMSD and its partner organisations plan to carry this initiative forward with research in several areas:

- the adequacy of techniques for measuring good social and environmental performance
- the links between good performance on sustainable development issues and overall company financial results
- the relationship between better performance and industry structure.

An outline report of the conference will be available. For more information, write to mmsd@iied.org.

continued from page 1

Fibonacci's work was a critical first step in the quantification of risk, a process that sits at the commercial heart of any financial institution. Sustainable Development brings a new dimension as we seek to understand risk and reward in a changing world. For these reasons, we feel that "0.618…" is a thought provoking name for our re-launched UNEP FI quarterly newsletter. We hope that you agree.

We would like to know what you think about the newsletter's new name and to hear your opinions on its contents, the way in which we cover issues and what issues you would like to see covered in "0.618…". Please let us know what you think by e-mailing Jacob Malthouse at UNEP FI, malthouj@unep.ch.

For the financial services sector, change, anticipation and adaptation to customer needs and market trends is a mater of competitive survival.

Klaus Töpfer, Executive Director, UNEP

UNEP Finance Initiatives

Innovative financing for sustainability

Contact the UNEP FI team directly:

Paul Clements-Hunt
Coordinator
pch@unep.ch

Ken Maguire
Senior Administrator
maguirek@unep.ch

Jacob Malthouse
malthouj@unep.ch

Mark Sanctuary
mark.sanctuary@unep.ch

Niamh O'Sullivan
niamh.o.sullivan@unep.ch

unepfi.net

The United Nations Environment Programme Finance Initiatives (UNEP FI), under the UNEP Division for Technology, Industry and Economies (DTIE), is a unique voluntary initiative between UNEP and some 275 banks, insurers, and asset management companies worldwide.

The goal of the initiative is to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

UNEP FI comprises the Financial Institutions Initiative (FII), for the banking sector, and the Insurance Industry Initiative (III), for insurers, re-insurers, pension funds and asset management concerns.

Financial Institutions Initiative (FII)

FII was founded in 1992 to engage a broad range of financial institutions in a constructive dialogue on economic development, environmental protection, and sustainable development. Signatories to the UNEP FI Statement by Financial Institutions on the Environment and Sustainable Development commit to the integration of environmental considerations into all aspects of their operations and services.

Insurance Industry Initiative (III)

In 1995, building on this success UNEP launched another partnership with the Insurance Industry, who also play a key role in achieving a sustainable economy. Signatories to the III's statement of environmental commitment have played a high profile role in various intergovernmental negotiations, notably those under the United Nations Framework Convention on Climate Change.

Quality Services

We provide our signatories with practical research; capacity building; and information exchange services. Our products range from professional development programmes and action-oriented reports to major international conferences that bring together professionals from around the globe.

Practical Support

Our job is to provide quality support for your organisation. In addition to our dedicated team, UNEP FI opens up a vast network of sustainable development contacts, information and networking services that are dedicated to helping you and your organisation make a difference.

Structure

UNEP is headquartered in Nairobi, Kenya. UNEP has six divisions through which it carries out its activities, including the Division of Technology, Industry and Economics (DTIE) based in Paris, France. The Economics and Trade Unit (ETU), based in Geneva, Switzerland, is a unit of DTIE. The Finance Initiatives is an Initiative of the ETU.

Editor Paul Clements-Hunt
Assistant Editor Jacob Malthouse
Designed and produced by Rebus
Printed in France by Promoservice

UNEP Finance Initiatives
Innovative financing for sustainability

15 Chemin des Anémones
CH-1219 Chatelaine, Geneva, Switzerland
Tel. 41.22.917.8178 / 116, Fax. 41.22.796.9240