

THE CO-OPERATORS

SUSTAINABILITY STRATEGY

**FUTURE OF SUSTAINABLE INSURANCE:
THOUGHT LEADERS STUDY**



by
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March 2007

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S O L U T I O N S F O R A S U S T A I N A B L E W O R L D

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EXECUTIVE SUMMARY

The insurance industry is at a crossroads given environmental and demographic changes ahead. The world's second largest asset-based industry, with global consumer connections, insurance plays a vital role in the world economy, influencing societal and economic confidence and security. Its choices at this juncture will affect society's fortunes.

The Co-operators Group Limited seeks to understand the opportunities and threats to the insurance industry and the role a responsible insurance company should take to chart a path that puts it on a sustainable course, while contributing to the betterment of society, the economy and the planet. Thus, they hired Strandberg Consulting to conduct a Thought Leaders Study on The Future of Sustainable Insurance as part of a more comprehensive effort to develop a long term sustainability strategy with The Natural Step Canada and Strandberg Consulting. This paper is the result of this effort.

From January – March, 2007, 10 thought leaders in sustainable insurance were interviewed for their views on trends in sustainable insurance over the coming decade. While a small sample size, the thought leaders were diverse in terms of their industry position (4 insurance professionals, 2 environmental groups, 1 insurance association, and 3 insurance sustainability advisors) and geography (3 from Europe, 3 from the UK/Scotland, 1 from the US, 1 from Australia, 1 from US/Europe and another from US/Europe/South America). Interviewees were asked their views on the following:

- 1) Best practice sustainability performance in the insurance industry 10 years from now
- 2) Drivers of these sustainability trends
- 3) Greatest sustainability opportunities and threats to the insurance industry
- 4) Key CSR/sustainability issues which insurance companies will be addressing 10 years from now

- 5) The top 2 – 3 issues insurance companies should address if they seek to be a leader in sustainability and make a difference in society and/or improve environmental conditions.

Overall thought leaders predict that many future corporate social responsibility (or sustainability, used interchangeably in this paper) developments in the insurance industry will align with general industry trends towards the embedment of sustainability within governance, management and operations. Sustainability reporting and carbon neutral programming will be common features over the decade, as will a suite of sustainability products to reward customer sustainability behaviors, especially those that reduce risk, prevent loss and increase insurance affordability. Particularly, a number of climate change related products are expected to materialize during the decade, as are products that encourage healthy lifestyles.

Future customers are expected to be more demanding of corporate sustainability performance, no less for the insurance industry. Asset management in this period will undergo a revolution as insurers become more sensitized to the degree to which social and environmental developments can affect their portfolio investments. A rich stakeholder environment is also predicted, with insurers collaborating with governments, non-governmental organizations (NGOs), the private sector and communities in mapping out their sustainability journey.

Thought leaders also predict a number of drivers for sustainability performance of the insurance industry. Climate change trumped all others as having the biggest affect going forward, followed by resource scarcity in general. Growing public awareness and rising consumer expectations, fueled in part by instantaneous and ubiquitous media, will have a significant influence on insurers' social and environmental practices, as will investors seeking quality sustainability management. NGOs, governments and employees, not to mention the competition, will create additional pressures on the insurance industry in the drive towards continuous sustainability improvement.

Questioned on threats and opportunities facing the industry's sustainability future, thought leaders again pointed to climate change – with some even questioning whether the industry would be able to withstand the expected shocks ahead. A number of additional threats were identified, including liability issues within emergent technologies (e.g., GMOs, nanotechnologies, human genetic engineering). Labour market pressures and social disruptions from environmental migration are expected to make their mark on the insurance industry as well.

While balance sheet threats are extensive, thought leaders were optimistic about a number of opportunities ahead, many of them the upside of the down potentialities, including new insurance markets, new investment sectors, a growing database to enhance analytical predictability and improve risk management, among others.

Respondents, asked to name the CSR issues that will confront the industry in the future, pointed once again to climate change. But they also enumerated a lengthy list of social

issues that will come to the fore, including obesity, pandemics, general health and lifestyle issues, poverty and social exclusion, customer privacy, off-shoring, trust and demographics, to name some from this list.

Finally, thought leaders were asked to identify key issues which a leader in sustainable insurance should address to be credible and to influence critical social and environmental trajectories. Many of them counseled that companies seeking to be leaders in the sustainability field should get their own house in order, in order to have any marketplace authority. From there, they advised aspirant firms to play an active role to reduce community risks and advance community sustainability, as trusted brands are developed through reliable and consistent corporate responsibility at the consumer level. Amongst the thought leaders there was also a call for leadership in public policy development and multi-stakeholder collaborations to tackle critical social and environmental concerns facing society. If leading insurers can help society reduce, adapt to, and prepare for risks, while preserving insurability, they can build trust and confidence amongst their key constituencies.

The insurance industry is thought by many to be a sustainability laggard – the leadership gap ahead is wide and the imperative for sustainability leadership is as wide, if not more so. If the industry resumes the leadership of its past, given its connection to businesses and households worldwide and the magnitude of its assets, it will be well positioned to bridge the trust gap that currently exists. Such leadership will be critical for a sustainable future for the industry and the planet.

FUTURE OF SUSTAINABLE INSURANCE: THOUGHT LEADERS STUDY

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INTRODUCTION

The insurance industry is at a critical moment in time. As the second largest industry in the world in terms of assets¹, with its reach into most businesses and households, and given its fundamental role in the world economy, pooling and transferring risk to enable consumption and investment, the insurance industry has considerable influence over societal and economic confidence and security.

Now the tectonic shifts shaking up the world – climate change, terrorism, global pandemics, new technologies, growing poverty gap, and threats to energy security – have placed the insurance industry on the front line. How it will deal with these threats to economic and social security will profoundly affect its impact, for good or ill, on the global economy. Insurance industry efforts to understand these trends and anticipate their effects will benefit us all, particularly if they take the bold steps necessary to foster the changes in our economic and social structures essential for a sustainable future.

The Co-operators Insurance Group seeks to both understand these trends and the role a responsible insurance company should take to chart a path that puts it on a sustainable course, while contributing to the betterment of society, the economy and the planet. Thus, they hired Strandberg Consulting to conduct a Thought Leaders Study on The Future of Sustainable Insurance, as part of a more comprehensive effort to develop a long term sustainability strategy with The Natural Step Canada and Strandberg Consulting. The following is the result of this effort.

METHODOLOGY

From January – March, 2007, 10 thought leaders in sustainable insurance were interviewed for their views on trends in sustainable insurance over the coming decade. Interviewees were identified by their peers as being leaders in sustainable insurance and to represent diverse perspectives (3 insurance professionals, 2 environmental groups, 1 insurance association, 3 insurance sustainability advisors). Interviewees were geographically dispersed, with 3 from Europe, 3 from the UK/Scotland, 1 from the US, 1 from Australia, 1 from US/Europe and another from US/Europe/South America.

¹ From www.csmonitor.com/2006/1013/p01s01-usec.html March 21, 2007.

Interviews lasted up to one hour and interviewees were asked the following questions:

- 1) Please describe best practice sustainability performance in the insurance industry 10 years from now.
- 2) What are drivers of these trends?
- 3) What are the greatest sustainability opportunities and threats to the insurance industry?
- 4) What key CSR/sustainability issues will insurance companies be addressing 10 years from now?
- 5) What top 2 – 3 issues should an insurance company address if it wants to be 1) a leader in sustainability and 2) make a difference in society/improve environmental conditions?

The list of interviewees is provided in Appendix A.

No attempt was made to define corporate social responsibility (CSR) or sustainability for the interviewees, but it was generally understood to mean the incorporation of social and environmental considerations into business operations and strategy. The study results below use CSR and sustainability interchangeably.

STUDY RESULTS

Best Practice Sustainability Performance in a Decade

Thought leaders were asked for their views on best practice sustainability performance 10 years from now. Generally, they believed that what happens with insurance won't be divorced from the rest of society; changes in the insurance industry will move with general awareness of challenges that face the world. They commented specifically on certain elements of the industry, including products, investments, operations, governance and management systems, markets and customers, stakeholders and reporting.

Governance and Management Systems

As with all sectors, insurance industry boards will increasingly be held responsible for the sustainability behaviours of their companies. Boards will be establishing CSR committees, and CSR departments are expected to become closely associated with board operations, perhaps more so than other departments. It is expected that there will be more certification of environmental management systems, following the ISO 14001 certification program. There will be more industry benchmarking of its sustainability performance and third-party audits of company sustainability performance, commissioned by boards of directors. Boards will be actively managing risk issues and there will be active board reporting on the company's sustainability performance to investors and other stakeholders. Sustainability will become embedded into governance and management systems

Reporting and Transparency

Two reporting trends are predicted over the coming decade, one in which mainstream reporting includes greater disclosure of material social and environmental matters and another in which companies increasingly report on their social and environmental performance relative to goals and targets in stand-alone sustainability reports. The Global Reporting Initiative, a voluntary international reporting standard, will influence how insurance companies report and will be common practice in 10 years. There will be more investor and stakeholder scrutiny and greater demand for materiality-based reporting on key sustainability issues germane to the insurance industry. Reports will be third-party verified to build credibility amongst shareholders and other stakeholders.

Additionally, it was predicted that over the coming decade there will be greater transparency in the offerings of insurance companies. In an attempt to satisfy more and more sophisticated customers, insurance companies will be providing more product information to inform customer choice.

Operations

In the future insurance companies will be actively managing their direct social and environmental impact which will come to be seen as general housekeeping practice. Carbon neutralization is a trend that will be picked up rapidly in the coming period. Much as insurance builds confidence in markets, the public will seek assurances that the insurance industry is managing its operations responsibly; confidence will be eroded if insurance companies cannot demonstrate how employees are operating on a daily basis, with respect to transportation and other sustainable practices.

Carbon neutrality will be on every insurance company's agenda, but beyond this leading insurance companies will be making a net contribution to the climate agenda. Sustainability leaders will find ways to eliminate their GHG emissions without buying carbon credits or investing in carbon offsets and this will become relatively common practice. High ranking sustainability performers will be fostering a net positive impact on environmental and social issues in ways their competitors are not. In terms of CSR and sustainability, leading insurance companies will have moved beyond compliance with the law and basic societal expectations, to CSR "plus". Leaders will build CSR into the DNA of their operations such that shop floor creativity can kick in, resulting in more employee innovation than ever before. These leaders will find that their early CSR investments reduced their operating costs significantly. Those ahead of the pack will get there by, for example, installing wind turbines on their office buildings to not only power their operations, but to feed electricity back into the grid. Their office facilities will conform to the highest standards in green performance.

Employees will be attracted to work for these leading companies because of their strong sustainability ethos, which is further reinforced by quality work practices, such as work from home options and other flexible work systems.

Future purchasing practices are also expected to change for leading insurers. The purchasing activities of insurance companies will increasingly be taking social and environmental criteria into account.

Products

While it was acknowledged that the insurance industry is currently a long way away from acknowledging the need to incorporate social and environmental factors into their products and services, this is expected to change considerably in the future.

Leading insurance companies are expected to turn their knowledge of the impacts of human pressures on the earth into core product features. Judgments on the responsibility of the company will be affected by how their products demonstrate CSR values. Indeed, it was expressed that there is a growing expectation that service providers will share the public concern that the world is in stress and that insurance providers will start to adapt their products to this expectation – the only highly visible means they have of demonstrating performance. It is expected that the insurance world will increasingly be judged on the sustainability impacts of their products, both by investors and customers.

Commentators had the most to say about how insurance companies will be adapting their products to environmental realities, particularly climate change which was top of mind for all interviewees. It was believed that in the future insurance companies will have a suite of products that incorporate environmental considerations. They will be pricing their products in ways that create incentives for environmental responsibility. They will be providing advice to customers about how they could reduce their environmental footprints.

Best practice insurance companies will be taking a lead role to address the risk landscape of society as there will be an increasing number of risks threatening society that will need solutions. A few commented that in terms of risk products, car, fire insurance, accident insurance and so forth, underwriting practice and pricing will to some extent reflect environmental risk and will seek to influence customer behaviour in a way that is both more environmentally responsible and prevents loss for the insurance company.

Many interviewees commented on the future role of insurance companies to address climate change through their core products. Some examples include:

- Weather derivatives pertaining to renewable energy – products that guarantee if the wind doesn't blow or the sun doesn't shine there will still be revenue certainty.
- Carbon credit insurance – as regulators move to internalize previously externalized environmental costs (e.g. carbon trading programs), products will be

developed to help manage the resulting liabilities. With carbon trading there could be liability issues for companies that exceed their caps.

- Green building incentives – green building technologies lower risks to insurers because many green buildings have sturdier construction, highly insulated windows, etc., making them more resistant to storms. Those with distributed power generation are less vulnerable to power outages. These practices result in fewer business interruption incidences. There are higher standards for commissioning green buildings: LEED certified buildings undergo more tests, resulting in less malfunctioning and fewer losses. The other appeal of green buildings to insurers is their worth, resulting in increased revenues even where discounts might be offered.
- Green auto programs – pay as you drive schemes (most commonly mentioned by the interviewees), CO2 offsets for car insurance, and a host of products that encourage behaviour that reduces car-related GHG emissions will be on the shelf in future.
- Climate neutral claim repairs – claims contractors will be expected to incorporate environmentally neutral building materials and other sound sustainability practices.
- Insurance offset programs – there are risks that offset programs do not capture carbon in perpetuity. Thus the insurance industry will be innovating to provide insurance for these liabilities.
- Climate awareness programs – web-based and other advisory services to help customers reduce their GHG emissions.

Thought leaders predict a number of ethical issues for the insurance industry ahead and expect that sustainability oriented insurers will be playing a leading role to address these. Social inclusion is a critical issue for many western countries and the insurance industry will be expected to play its part. For example, leading insurers will be looking for the balance between risk weighting and risk pricing as it impacts individual customers, seeking to provide a service that fits a wide range of customers. To ensure equitable access to insurance, leaders will be looking for the most appropriate trade off between higher levels of profitability available through individual pricing, and widely pooled risk programs. This affects those living and operating in flood plains, for example, and many social issues as well.

Population aging is a key social issue leading insurers will be grappling with over the coming decade. With the aging of the population, ethical insurers will need to find a way to profitably price in the market place that also ensures those most vulnerable are protected. Insurers will be tackling the question of how the elderly can be properly served, and how they can be encouraged to minimize their risks, rather than lumping them together as a group. While individually based risk pricing may be the way of the future, leading insurance companies will be designing programs for those that fall outside the pool to manage the risk in their lives. The ethical issues in group-based solidarity

pricing and individually-based tailored programs are complex and will need to be thoughtfully explored.

Another aging-related issue is the long term care of the elderly. Governments will want the marketplace to play a role in supporting people to insure and protect themselves. Opportunities will open up in public private partnerships between government and leaders in the insurance industry to deal with service provision in this area.

It is also predicted that there will be significant evolution in serving those at the bottom of the economic pyramid. Global insurers, particularly, looking to strengthen their presence in emerging markets will be innovating through micro-insurance schemes or the tailoring of mainstream products to the lower end of socio-economic groupings. Low income markets will be supported by leading insurers helping to support their sustainable livelihoods through difficult, down periods and by supporting people to live fuller lives because they have the confidence of the safety net provided by their insurance program.

Leading sustainability insurers will be developing products to serve the under-served, to grow new markets, build brand and profile and contribute to sustainable livelihoods.

More holistic products are expected to emerge where insurance companies will be offering health insurance and supporting the provision of health care as well.

The market is expected to become more sophisticated in both assessing premiums and offering discounts to incentivize risk-reducing health behaviours. Some leading insurers will be active in awareness raising through health promotion programs, whether obesity, smoking, stress in work, etc. They will be collaborating with the private sector and their clients to manage some of these costs, stress in work being an obvious point in case. In order to better understand these trends and potential market opportunities, insurers will be tracing and monitoring the evolution of illness and disease, thereby impacting the future ability of society to prevent or better manage disease. This new information will enable leading insurance companies to customize their products and target them to groups with positive lifestyles, thereby encouraging better healthy living in future.

Leading insurers will be looking for a range of measures to reduce community risks, creating a win-win for themselves and society generally.

Markets and Customers

It is expected that future customers will become more demanding in terms of the types of products available, looking for sustainability leadership from their financial institution, including their insurance provider. While in the past insurance companies have been loathe to publicize their sustainability efforts, changes are anticipated with greater brand differentiation amongst sustainability insurance leaders. Those not communicating their sustainability programs to the marketplace will be seen as pariahs.

This is particularly thought to be so with generation x and y customers, whose buying power will become increasingly influential. They tend to be less loyal in their commercial relationships and leading insurers who understand this will be attracting and retaining them by offering products “plus”. They will be seen to be offering more than a good product, but to be contributing positively in the community. This will be essential to remain competitive.

Leading insurers will look at opportunities to provide insurance access to the financially excluded. For example, research in the UK demonstrates that only half of the lowest 10% of earners have insurance. Many within this group are at risk from flooding, live in social housing, etc. Recent experiments have demonstrated that costs to serving this market can be reduced through public sector distribution channels and that while there are not likely to be great financial returns from such efforts, significant social returns can result. Sustainability minded insurers will be exploring such double bottom line initiatives, many of which would be the result of public-private partnerships.

While these are some social market opportunities domestically, many global insurance companies will be looking to support the emergence of micro-insurance in developing countries, bringing affordable insurance to the poor at the bottom of the economic pyramid. There will be a wider insurance client base in these markets, driven by micro-insurance developments and also rural development insurance. For example, the Indian agricultural industry will source insurance products to cover drought and other weather risks. Leading sustainability insurers will be looking to bring financial solutions to this new clientele.

Asset Management

As with products, it is generally viewed that insurers today are a long way from integrating social and environmental considerations into their investment process. However, profound changes are expected over the coming decade.

In the course of the next 10 years asset managers, insurers among them, will seek to integrate social and environmental criteria into their mainstream investment portfolio, aligned along the basis of the UN Principles for Responsible Investment in practice today.

Thought leaders believe that there will be dramatic change in asset management because it is far too short term at the moment and it will evolve to incorporate longer term considerations, where sustainability issues become relevant. It is increasingly well recognized that companies with heavy future sustainability liabilities are bad investments.

Insurers will be investing in environmental technologies within their alternative investment portfolios. In the next few years, particularly, asset managers are expected to witness a sea change in the consideration of climate change issues. Insurers will be moving their investments out of fossil fuel companies, power generation companies

reliant on fossil fuels, and heavy GHG emitters. As soon as emission trading systems take off and as carbon prices sky-rocket, asset managers will be factoring carbon into their analyses. These developments will redraw the profitability picture in many sectors.

Thought leaders were united in their view that sustainability will be a major factor in future investment decisions. Companies that aren't adopting sustainable practices will be filtered out, especially those companies where environmental issues are directly related to their profitability and performance. This will be facilitated through the development of accepted international standards for analyzing future sustainability performance and its impact on shareholder value, driven in part by rating agencies who are expected to be considering these issues increasingly over the decade.

Stakeholders

Sustainable insurers are expected to be actively engaged with policy makers and society going forward. Governments alone can't solve the sustainability issues facing the planet, nor can non-governmental organizations (NGOs). The trend is towards more collaborative engagement, where the insurance industry will be working in partnership with the private sector, government, NGOs and communities to establish the right policy frameworks and marketplace signals. Leading insurers will be mapping out desired future states through multi-stakeholder platforms, coming up with ways to work together to bring about sustainability solutions. Savvy companies will be partnering with government agencies and NGOs on sustainability issues at the macro and micro levels. Community level engagement will facilitate progress on local level issues. Leading insurers will realize they have many overlapping agendas with governments and NGOs and that there is benefit in working together on mutual issues.

Public-private partnerships will become more and more commonplace, especially those dealing with the impacts of global warming such as will be felt by storm-, flood- and drought-prone areas. Entire regions will become uninsurable and arrangements will be made with government to develop vehicles to address these issues. Leading insurers will pave the way.

There could even be direct business opportunities in collaboration with NGOs, through the establishment of cause-related and affinity marketing programs in which common cause NGOs would refer business from their membership to their partner insurance company. Community-based partnerships will be more and more viable in the future as well, where win-win opportunities to lower community risk, lower insurance costs and lower premium risks will be explored. Collaborations that facilitate the selling of more insurance, spreading the risks more widely so that more people can afford are likely in the future, advancing social and business progress. These partnerships are quintessential to long term community sustainability.

Client engagement will also come to the fore, and be part of emerging best practice for insurers, especially, it was thought, for corporate clients. Leading insurers will be

collaborating with lead clients to help them identify and reduce their emerging sustainability risks.

There will also be more and more informal or formal focus groups or committees where sustainability objectives and programs are discussed. Best practice companies will be seeking stakeholder input in the design and execution of their sustainability programs.

Finally, it was felt that there will be increasing stakeholder scrutiny in future, further driving sustainability performance within the sector

Drivers

One comment summed up thought leaders views on the key drivers of sustainability performance and practice of the insurance industry: there is a “surround sound” affect on the primary insurer, with everyone they are tied to pushing for these changes. Key amongst these drivers is environmental degradation and top of these, of course, climate change, and secondarily, resource scarcity.

- The noise about environmental degradation and climate change is getting louder with each year; there are reminders for every single person that things aren't quite right. The planet is giving us signals all the time – that will drive insurance. The noise level on climate change and environmental degradation is growing exponentially.
- Global warming is the driver of these trends. Forward looking insurance companies will analyze their claim statistics and realize that their future business will be more than taking in policies and paying out claims. As sustainability is a main issue for survival, insurance companies have a big role to play.
- The facts themselves are key drivers of change, with significant percentages of insurance claims caused by natural disasters – floods, hurricanes, storm damage – which are expected to witness a significant increase. With these statistics, most insurers will re-engineer their business model and their offerings to take account of the trends.
- Given the planet's finite resources, pressure from increasing population growth will force society to change the way it lives, particularly as China and India develop large middle classes. The basic driver is that there won't be enough to go around.
- The future is no longer predictable on the experience of the past; we are dealing with a different ball game. Twenty years ago civilization passed the line where now we are living beyond the resources of the planet. This puts a different skew on the way we predict the future.
- The industry will not see the continuation of historical growth patterns. We will see significant shift in how resources are used, this will drive a different model than has been used historically.

Additional drivers include the public's increasing demand that business play a stronger role on social and environmental issues. There is a growing awareness that the world is a finite place and we can't continue to consume at current levels without destroying it. There is a changing public consciousness on environmental and social concerns, driving more business attention, including the insurance industry, to these issues.

There is also a growing public backlash to the way the insurance industry has defined itself recently and this is expected to grow. The central role that insurance plays in the economy is not appreciated until it pulls out. The loss of insurance availability has made people realize the importance of this industry to the economy; lobbies are starting to form to engender a stronger role for the insurance industry to lead on key public policy issues.

Public awareness of the growing divide between the rich and poor and of the poverty gap between developed and developing countries is growing all the time. There will be far greater expectation that companies will take into account the social impacts of their purchasing and product practices. There will be more transparency of where products have been sourced and a heightened social awareness and desire for more social equity and fairness through the business model.

Consumer expectations are expected to be a driver for change going forward. Their expectations have changed dramatically over the past years. There are significant trust issues and a growing demand for increased transparency. With the perceived excesses of the 1990s and increased globalization, industry has lost public trust. Corporate scandals, insider dealing and other ethical issues have resulted in a general drop in trust of major industries compared to 10 years ago. Customers want to be shown that companies are responsible. They want companies to act in ways that are beneficial to society beyond the pure profit motive, taking social and environmental issues into account in how they conduct business. Sustainability is becoming increasingly more of a requirement to maintain a company's social license to operate.

This heightened awareness will prompt more governance and board leadership on these issues as public concerns come more and more into the boardroom, driving further sustainability performance.

There is also a media and communications revolution underway which is fostering greater accountability and transparency from corporations. False steps by companies even in remote corners of the world can make the 6 pm news the same day. This public vigilance is predicted to promote improved sustainability performance going forward.

Investors are perceived to be a large and growing point of pressure for insurers, because there is growing concern that if insurers don't properly address these issues, they put their business at risk. Universal investors such as pension funds and other large asset holders broadly invested throughout the economy will be concerned about insurer performance on these issues, given the centrality of the insurance industry to the macro-economy - anything that damages the insurance mechanism will have damaging economic repercussions. Such large economic players will be a focus of interest of universal

investors over the coming decade. Capital flight from Florida and the southeast US, for example, due to insurance industry withdrawal will have a significant ripple effect in the US economy and will be a huge worry to large investors.

Shareholder activism is also increasing, and the biggest growth of this activism is in the climate area. Engaged shareholders will want to know how insurance companies are reducing their emissions, whether their assets are invested with climate change in mind, and the role they are playing to help their customers reduce their climate impact. And insurance companies will take notice.

NGOs are expected to be a force for change in the years ahead, in which they will be demanding improved social and environmental performance from the insurance industry. Indeed, it was commented by one thought leader that there is a rising interest amongst NGOs to push insurance companies on climate change. This is predicted to be a big industry lever in the not too distant future.

Governments, too, will be an active driver of future sustainability of insurers and industry more broadly. Voluntary and regulatory programs are expected to become du jour.

Another voice contributing to this cacophony are employees themselves. Companies seeking to attract the best and the brightest will fly their sustainability colours, and will see morale and productivity increase through enhanced sustainability performance.

Leadership and competition within the industry itself will be a further force for change. The big reinsurers such as Munich Re and Swiss Re, for example, are raising awareness of these issues amongst their clients.

Threats and Opportunities

To a person, interviewees identified climate change as the biggest threat to the insurance industry, with some even wondering if the insurance industry will be able to withstand the coming shocks. Extreme weather events linked to climate change are already on the balance sheet; the cumulative impact to the insurance and reinsurance industry of storms, hurricanes, flooding, fires, and drought will be dramatic. There will be exclusions of covers, red-zones and uninsurable activity resulting in market destabilization. Investments are at risk, including property investments, and business disruption and supply chain disorder is predicted, particularly with China becoming a global supplier of manufactured goods components. It is predicted that by the middle of this century, 80% of China's GDP will be situated on the coast and coastal locations are vulnerable to climatic damage. There will be many changing business patterns, particularly within the agricultural area as bio-diversity migrates to find its most comfortable micro-environment. There will be significant shifts in the way industry operates over the coming decade, with the accompanying social issues.

While climate changes was named public enemy #1, outranking all other threats to the insurance industry, thought leaders identified other threats currently on the radar.

Loss of customer trust due to scandals or major corporate failures are high on the threat agenda for some.

Emerging liability issues in new technology areas pose another risk to the industry, including GMOs, nanotechnology, and human genetic engineering. The insurance industry is wary of repeating their asbestos experience – there could be massive law suits and damages as a result of unanticipated problems in these new fields. The solidarity of the insurance industry could be called into question with some of these developments. Take human genetic engineering – as this becomes technologically more and more feasible such that those with means can control their health outcomes, how will the insurance industry respond: collectively through solidarity or differential pricing based on ability to pay?

With the pace of technological advancement, the insurance industry is less and less able to rely on historical patterns, with the result that the future is less predictable, making it harder to price and pool risk.

Social issues are on the radar as well, threatening the industry. There will be future environmental migrations, and insurers will be pressed into providing cover for new populations and cultures and maintaining accessibility and affordability for new population groups.

Another threat to insurers is more mobile employees and a shrinking labour market. There will be a war for talent and those insurers that don't pay attention to employee concerns for skill development, workplace flexibility, elder care, child care and other matters will experience higher turnover than their competitors.

On the opportunity side of the ledger, many thought leaders commented that within each threat lay some robust business opportunities: “the biggest threat is not taking the opportunity”. From an insurance perspective every new risk is also an opportunity because it is something they can cover if they are proactive, engaging on the issues and developing products to address them. Insurance companies that understand the issues, can use their expertise to help their clients, produce new products and develop new revenue lines:

- There will be huge carbon markets and much business for the insurance industry helping to develop these markets.
- There is a foreseeable energy crisis – we know we cannot rely on oil to power industry. The opportunities will lie in replacements for carbon-based energy. New markets will exist for insurers to provide insurance products for, or invest in, the renewable energy and clean technology sectors. There are many opportunities to insure growing industries with technology-fueled solutions to energy scarcity.

- New product opportunities where discounts can be linked to quantification of environmental and social benefits, whether safety, reduced pollution, reduced emissions, etc.
- The availability of geographical data to understand environmental threats more effectively with much more granularity will equip insurers to participate in land use planning regarding coastal development and to engage in public policy on these matters.
- Insurers can be proactive and use the tools and data they have to stay ahead of the curve. They can use their claims statistics and other data to analyze the direction of the industry and take steps to be innovative on products, investments and client engagement.
- There will be changes in the valuation of real estate; some buildings will be uninsurable while others will be built to new standards in new habitable regions, and will need to be insured. These developments will create opportunities at the same time as they generate losses.

Thought leaders identify opportunities to write product in emerging markets and to develop products for people who lack access to insurance.

There are opportunities for the private and public sectors to work together, for example, where the private sector can take on a bigger risk management role than at present, but with some of the bigger risks being taken on by the state where the industry cannot afford to underwrite the entire market.

Further opportunities exist for insurers who support community economic development. Business opportunities are generated when there is a thriving local economy and the insurance industry could play a lead role here. Crime is reduced when employment goes up, creating a further benefit for insurers.

It was generally felt that if insurers want to be successful in the insurance market they will need to be at the forefront of these opportunities. Innovation is critical to this success.

Future CSR Issues

Respondents quickly reeled off a number of future CSR issues that insurance companies will be addressing 10 years from now. Top among them, of course, was climate change, but interestingly, there were as many if not more social issues identified as key over the coming decade.

Climate change currently heads everyone's agenda and is a mammoth issue for the insurance industry. Global warming impacts of rising sea levels, floods, severe weather events, droughts, and fires will be at the forefront in the years to come. Displacement and migration from affected regions will have a knock-on effect throughout the economy.

Water (and water quality, scarcity, management, use and access) was the next most frequently mentioned environmental issue ahead. Water is expected to come quickly on the heels of – and is exacerbated by – climate change. There will be insurance opportunities in the management of watersheds. Certain regions will be more affected by drought, temperature and heat islands than others.

Nanotechnology and GMOs were also frequently mentioned as key issues for board and executive tables. Toxic materials will require monitoring over the coming period by an industry that doesn't want to repeat its asbestos experience.

While global insurers see Asia and Africa as new markets, these are also the areas where ecosystems are under the greatest threat. It is not entirely clear if these are great places to write business on the health or property side. How do you write life insurance for China presently, given air, water and toxic pollutions? This is a significant challenge for innovators.

Of the many social issues identified, obesity headed the list, followed quickly by micro-insurance and access and affordability of insurance. A number of health issues were mentioned as being of concern, including pandemics and other catastrophic morbidity events, HIV/AIDs and general health and lifestyle issues. The material impact on health of lifestyle choices will become quantifiable, a function of greater data handling, and insurers will be considering how to promote healthy living as a macro societal issue.

Poverty and the related ills of social exclusion will be another boardroom issue. Along with questions of affordability and access, insurers will be joining their banking cousins in the financial industry to promote financial literacy and capability amongst the public. Large pockets of unemployment and the social stress thus generated will be of concern to insurance companies who will be looking for ways to provide jobs and training to at-risk youth and the locally unemployed. Providing work, commissioning repair work from businesses in distressed communities – the use of hiring and purchasing policies will become tools for insurance companies to contribute to sustainable communities.

Food production issues are on the rise as well, both from the perspective of the health and longevity of the population affecting life and health business, but also if food production companies get sued for what they put into foods. Another related food production issue is the impact of temperature shifts on crop growth, significantly affecting the agriculture industry and the viability of whole farm communities.

In a related way, supply chain issues will be higher profile in the future. There are innumerable risks in the supply chain particularly with the legal substances we ingest, whether food or medicine. Insurers will need to have an ability to understand the direct impacts of fertilizers and pesticides in the food chain; these issues will intensify under the microscope of public opinion in the years ahead. Insurers will come to understand how these issues affect how they write products.

Privacy is another emergent social issue and customers will become increasingly concerned about how their personal information is used, particularly as the industry seeks to find out more about them in order to price them. Ethical insurers will be leading the way in developing privacy protection measures and limiting cross-selling made possible through data-mining. Data privacy will be of increasing concern, further exacerbated by off-shoring trends. Customers will be wondering how their personal information is being managed outside of their own country. If customers are dealing with an insurer's back office in India, for example, how will their privacy be protected on Indian soils?

There are additional issues around the corporate practice of relocating business functions offshore. There will be considerable future scrutiny about this practice in the years ahead with a greater examination of the social and business impacts of service provider location in relation to customer service, employee dislocation and job loss.

The impact of the north-south divide will also be impacting the business agenda, no less the insurance industry. High poverty can generate social unrest which can result in terrorism and other security issues. While these issues do not impact quarterly performance, they can have a long-term affect on the business climate, impacting the insurance industry.

Trust is an enduring issue for insurance companies and whether it becomes a significant business concern will depend on how the insurance industry is managed going forward. There will undoubtedly be more scrutiny of the insurance industry over the coming decade in terms of its ethical and sustainability practices and performance. This will have an impact on the trust metrics within the industry.

Demographic trends will continue to influence business developments. The negative birth rate of western countries, immigration, and the uncertainty of these impacts will affect insurance markets. Over the next generation the aging population will fundamentally alter the marketplace balance for insurers: paying out life policies, employee knowledge loss through retirement, tight labour markets, the biggest ever transfer of wealth amongst private individuals to subsequent generations who see health, environment and lifestyle issues in a different way that insurance can't ignore, etc. All this will have a structural impact on the insurance industry.

The watchful eye of an educated and informed public will ensure there is no client discrimination. Insurer policies will ensure assumptions are not made about what kinds of risks people present due to their ethnicity, their background, where they live, etc. The public won't accept such practices, believing them to be morally wrong.

Finally, government relations and boundary issues will be at the forefront of industry planning. Insurers will be on a journey of determining what their responsibilities are and to whom. Down the road they will find themselves active in territories previously inhabited by government and this will be cause for public debate as, for example, with life and health insurance. The frontiers of corporate and government responsibility are shifting and insurers will be at the centre of many of these issues. It is predicted that the

state will retreat further in the coming years, with expectations that individuals will have more responsibility for their personal welfare, putting the impetus on the service provider to come up with solutions. The insurance industry will need a clear sustainability road map to chart a safe path through these treacherous waters.

Sustainability Leadership and Impact

Thought leaders were asked for their views on the top 2 – 3 issues an insurance company should address if it wants to be 1) a leader in sustainability and 2) make a difference in society and improve environmental conditions. Some respondents focused on operational priorities while others called for bold leadership.

There was a strong view that a sustainable insurance leader should have its own house in order internally before taking a high profile sustainability position. Once systems are in place to measure and monitor internal sustainability performance then a firm can move forward with greater authority. A key place to start would be to ensure operations were carbon neutral if not climate enhancing, as a firm's sustainability brand would be affected by its approach to carbon neutrality.

Getting one's house in order would include a strategic re-evaluation of the investment portfolio and risk management processes with a view to shifting away from traditional cash cows in recognition that the risk and general business paradigms have changed. This is an opportunity to think creatively about what new business opportunities are presented by these new paradigms resulting in product innovations and investment policies that are forward looking, and that help customers improve their sustainability practices. To be, and be seen to be, a sustainability leader it will also be essential to evaluate the current asset management portfolio against the emerging issues of sustainability.

To inform business strategy and future product development, insurers should consult with stakeholders in multi-stakeholder groups to ensure relevance.

Firms that wish to be sustainability leaders, who seek to align their practices with their values and vision, will need to have an internal mechanism to advance their sustainability performance. For example, CSR departments at group level and expert sustainability staff within each business, to provide sustainability analyses, explore the changing boundaries of responsibility and design effective responses, will help the firm navigate the sustainability waters. Companies in health, life and business insurance will need to be equipped to assess the changing business and societal context and consider the ethical implications for their business. The degree to which management has the insight, capacity and creative response to these areas will influence the firm's ability to be a sustainability leader.

The firm's approach to disclosure and transparency will be another key indicator of leadership. Sustainability reports which benchmark corporate performance, and disclose

sustainability performance relative to goals and targets, will be a barometer of sustainability commitment.

At the local level, sustainability leaders will be active in supporting healthy communities, educating the public and consumers about sustainable lifestyle issues regarding climate change, water, and healthy choices. Such firms will make it part of their core purpose to reduce community risks, making insurance more affordable and differentiating themselves in the process.

While thought leaders identified a number of clear, measurable, internal and community level practices to advance along the sustainability path, more of them exhorted the industry to step up to the societal plate to fulfill their historic role in advancing collective welfare.

A number pointed out that the insurance industry has a notable history of being societal watch dogs on emerging risk, where they engaged individuals and through public policy to reduce collective risk and advance human security. Examples such as fire insurance, auto safety standards, seatbelts, building codes and product safety standards are among the many public measures influenced by the insurance industry, albeit such leadership has not been a focus over the past few decades.

Access to insurance is a key concern, given the expected impacts of climate change documented in this paper and elsewhere. It is foreseeable that the insurance mechanism could break down and cease to exist, according to some thought leaders. However, the industry has certain social obligations, not simply in reacting to risks, but in commitments to preserve insurance viability in key markets. While a natural response might be to pull back and raise coverage, this is not a long-term solution. Leadership will involve taking a more proactive approach to these risks and working to preserve insurability and helping society to adapt. It requires a more expansive view of the role of insurance in society, consistent with their historical roots. As part of this leadership, leading insurers could focus on loss mitigation, loss prevention and the provision of insurance solutions. They could focus on eliminating the risk element from these issues and designing products that promote adaptation to, or mitigation of, sustainability threats to society.

Insurers that take steps to rebuild trust and address the public skepticism about insurers' intentions will find a leadership path open to them. If they can build a proactive, constructive role, and help society adapt and prepare for risks, whether climate change or anything else, they can rebuild trust and confidence. This will require active engagement with society and policy makers, new product and service development and other measures as part of an overall systematic response.

Done properly and for the right reasons, providing access to insurance – whether micro-insurance in developing markets or preserving insurance affordability in developed markets – will further engender greater public trust, a byproduct of sustainability leadership.

Thought leaders perceive that the leadership path is found in multi-party collaborations. Collegial collaborations with government, businesses, civil society and others to explore public-private co-operative solutions will move society towards smart regulations, earlier interventions and scalable products. Commoditized insurance offerings will remain part of the market, but leaders will be those who collaborate and understand the marketplace in a more refined way. Future market makers are forward thinkers who find ways to create a portfolio of products and services that go beyond standard offerings.

Thought leaders call for higher profile leadership from within the insurance sector as in the past, to push political decision-makers and parliamentarians on critical environmental and social issues that threaten public safety and the healthy functioning of economic markets. More proactive engagement early on in policy development can result in better and smarter regulation, but can also bring insurance expertise into the planning processes that are shaping modern societies. While insurance might have a staid image, the reality is that the industry has tremendous analytical capability which can be applied to complex social problems. Insurance leaders will be engaged in this way.

Finally, many thought leaders pointed to the critical issue of trust as a place where leadership will be won or lost. It was acknowledged that the whole of insurance is catalyzed into selling promises; anyone in the business of selling promises confronts the question: “can I trust you?”. This is a here and now issue for the industry. Trust in the consumer’s mind can atrophy, so leading insurers will be putting effort into understanding the forces that engender trust. People will trust firms whose behaviour they approve, based on their business conduct. Trust will be high on the agenda of sustainable insurance leaders in the future.

The internet will be a key driver of this attention, giving rise to greater exchange and discussion of insurance company performance. Trust will ultimately be built in the way leading insurance companies treat customers; the internet will facilitate customer dialogue on their experiences, evaluating whether or not the insurer kept their promises.

To build trust and confidence, all these things are necessary. Insurance companies with high trust metrics will be leading on traffic safety, environmental management, public policy advocacy, research into social issues and the plight of the economically marginalized, sustainable product innovation, etc. Their operations will be third-party certified and together these efforts will inform the market and policyholders that they are trust worthy.

CONCLUSION

These ten thought leader insurance professionals and trade and environmental group representatives from across North and South America, Europe and Great Britain identified a number of trends in best practice in sustainable insurance over the coming period. Many future developments, they predict, will align with general industry trends,

with insurance companies focusing on carbon neutral leadership and product offerings which reduce risk, prevent loss and increase affordability.

Climate change is not unexpectedly deemed to be the biggest threat to the insurance industry, albeit its turbulence creates product opportunities in its wake. Insurance companies are counseled to be actively exploring these new markets. A number of social challenges lie ahead, including health and lifestyle matters, and demographic changes.

Aspiring sustainability leaders are cautioned to get their own house in order before pursuing the sustainability stage, but are equally challenged to resume their historic roles as champions of social and economic security. Industry efforts to bring together governments, business, and civil society to craft a sustainability roadmap are key to sustainability leadership, as are on-the-ground steps to demonstrate commitment to sustainable communities and risk reduction. Kept promises and responsible business conduct are necessary to bridge the trust gap and restore public confidence in the insurance industry. Finding ways and means to maintain access to vital insurance products is part of the mix.

These efforts would be only just in time.

Such enlightened leadership is critical for a sustainable future for the industry and the planet.

APPENDIX A LIST OF INTERVIEWEES

Paul Clements-Hunt, Head of Unit, UNEP FI, Switzerland

Tony Coleman, Chief Risk Officer, IAG, Australia

Hans Dahlberg, Senior Advisor, International Co-operative and Mutual Insurers Federation, Sweden

Andrew Dlugolecki, Principal, Andlug Consulting, Visiting Research Fellow, Climatic Research Unit, University of East Anglia, Advisory Board Member, Carbon Disclosure Project, Scotland

Stephen Hadrill, Director General, Association of British Insurers, UK

Carlos Joly, Co-Founder and Special Advisor, UNEP Finance Initiative, France, US and Argentina

Andrew Logan, Program Manager, CERES, US

Anthony Sampson, Director of CSR, Aviva, UK

Paul Steele, Chief Operating Officer, WWF, Switzerland

Mark Way, Head of Sustainability, Issue Management and Reporting, Sustainability and Emerging Risk Management Unit, Swiss Re, US/Switzerland