

The Insurance Industry's Renewed Commitment to Sustainability

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When it comes to environmental responsibility, insurers have been slow to sign on. But recently they have begun to step up their commitment to sustainability.

Over the past decade, the number of NGO campaigns against financial institutions has increased steadily. Financial institutions are under fire because of transactions related to controversial sectors, such as defense, or — to use a term coined by advocacy groups — because of those related to “dodgy” companies and projects. NGOs might view companies and projects as dodgy, for example, because they disregard international standards such as the OECD Guidelines for Multinational Enterprises, or engage in controversial practices such as mountaintop removal mining in West Virginia.

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But why do so many NGO campaigns target banks, while so few take aim at insurance companies? This discrepancy is hard to understand.

Both banks and insurers have a similar role as “enablers” of business. The “insurance industry is a key enabler of most extractive, manufacturing and distribution activities by its corporate clients,” according to a publication by the CRO Forum (<http://www.thecroforum.org>), a risk management think-tank that primarily represents European multinational insurance companies. It is



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likely that most projects — controversial or not — that are financed are also insured. In some cases, having the appropriate insurance can even be a prerequisite for credit.

Both banks and insurance companies acquire comparable insights into the activities of their clients. They both tend to have long-lasting business relationships with them. Both also have a strong interest in truly understanding the risks of their clients. As with banks, the clients' risks are likely to translate into business risks for the insurer.

According to RepRisk (<http://www.reprisk.com>), a Swiss-based ESG business intelligence provider, banks have received roughly eight times more criticism on environmental and human rights issues over the past four years than have insurance companies. “Our data, which captures negative public sentiment from thousands of third-party sources on a daily basis, shows that until recently, insurance companies have rarely been the targets of NGO criticism. Interestingly, more recent data suggests that the gap between banks and insurance companies may have started to close,” says Alexandra Mihailescu (<http://www.linkedin.com/pub/dir/Alexandra/Mihailescu>), head of business development at RepRisk.

Does the relatively small number of NGO campaigns against insurers explain why they lag behind banks when it comes to environmental and social risk management and comprehensive sustainability strategies?

It could be. Other explanations are hard to find. First, as described above, insurance company exposure is comparable to that of banks. Second, the insurance industry has made public commitments to sustainable development that are equivalent to the commitments made by banks. In 1995, only three years after the UNEP Finance Initiative (<http://www.unepfi.org>) launched the UNEP Statement by Financial Institutions on the Environment and Sustainable Development

(<http://www.unepfi.org/statements/fi/>), a group of insurance and reinsurance companies launched the UNEP Statement of Environmental Commitment by the Insurance Industry

(<http://www.unepfi.org/statements/ii/>). And yet, although insurance companies have initiated certain sustainability initiatives in their asset management units, very little has happened in underwriting, which forms the heart of the insurance industry.

In defense of the NGO community, there is less public knowledge about the role of the insurance industry and how insurers and brokers sell risk coverage to companies and projects. And while business media resources such as Bloomberg (<http://www.bloomberg.com/>) offer a certain amount of transparency about the relationships between banks and their corporate clients, it is much harder to find out a company's insurer.

But as mentioned above, the dynamics have started to change. In the summer of 2010, the CRO Forum launched a trailblazing sustainability framework. This framework “makes the case that environmental, social and ethical challenges (in short: sustainability challenges) inherent to business transactions require systematic detection, assessment and management.” The CRO Forum subsequently published reports that

address specific controversial issues such as anti-personnel mines, cluster munitions, and oil sands.

The most important recent development, however, was the launch of the Principles for Sustainable Insurance (<http://www.unepfi.org/psi>) (PSI) in the summer of 2012, again originated by the UNEP Finance Initiative. Ban Ki-moon, Secretary-General of the United Nations, wrote that the Principles provide “a framework for the global insurance industry to address environmental, social and governance risks and opportunities.”

By mid-August 2013, roughly 40 insurance and reinsurance companies had signed the Principles, supported by more than 20 insurance market bodies. According to Butch Bacani, who leads the insurance programs of the UNEP Finance Initiative, these companies represent roughly 11% of world premium volume and \$6 trillion in assets. More insurers are currently in the process of joining this initiative. Bacani believes that the signatories are genuinely committed to the implementation of the Principles. They are the result of a multi-year process that involved representatives from the global insurance industry, industry associations, governmental bodies, the United Nations, NGOs and academia. Joining the initiative must be approved by the CEO or an equivalent executive, and the signatories are required publicly to disclose their progress in implementing the Principles.

At this point, *not* signing the PSI can be considered a public statement — one that insurance executives need to be conscious of choosing to make. Offering insurance coverage to corporate clients without assessing whether or not clients violate international environmental and social standards, for example, will soon present not only reputational, but also compliance risks. The spotlight is turning on the insurers' role in meeting the sustainability challenge.

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