



Fostering the Future:  
Sustainable ERM for Sustainable Business

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Sustainability Megatrends



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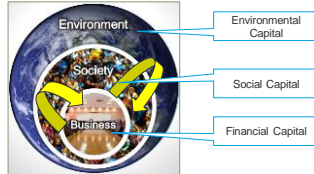
Series of horizontal lines for notes, spanning the right side of the page.

### What is Sustainability?



"Meeting the needs of the present generation without compromising the ability of future generations to meet their own needs" (Brundtland Report 1987)

#### Nested Interdependencies



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### Corporate Sustainability

- Definition: The Objective of creating value consistent with the long-term preservation and enhancement of environmental, social and financial capital

#### Vital Capital for Insurers:

- Environmental/Natural/Ecological Capital  
Natural resources and processes needed by organizations to maintain operations, produce products and deliver services
- Social/Human Capital  
Human relationships, partnerships and cooperation; may include Human Capital (health, knowledge, skills, intellectual outputs and culture of the individuals)
- Financial/Economic Capital  
Financial capital: provided by investors and/or generated from business activities  
Economic capital: financial capital to cover the economic effects of risk taking activities

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### Corporate Sustainability continued

- Environmental, Social and Governance (ESG)

Factors used to gauge the Sustainability performance of the company, portfolio and risk attributes

- Key Drivers

#### New Norm in Sustainability



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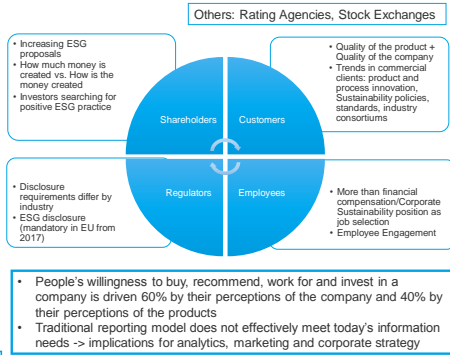
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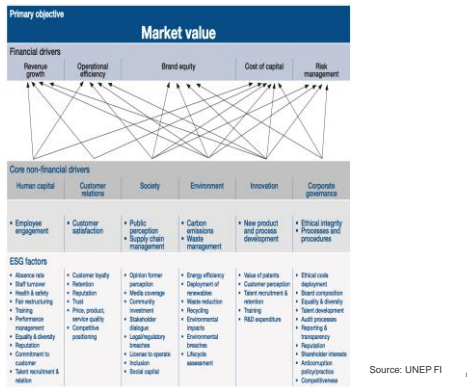
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### Key Stakeholders' Perspectives



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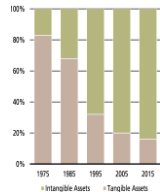
### Why Does Sustainability Matter in Corporate Value Creation?



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### Measuring True Value

- Market value of corporate asset reflecting in change in perceptions and expenditures



Source: Ocean Tomo (2015)

- Corporate Reporting: Sustainability Accounting Standards Board (SASB), International Integrated Reporting Council (IIRC), Global Reporting Initiative (GRI)
- Rating: Credit Rating incorporating ESG criteria, Sustainability rating

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72 is



- A. % of our conference materials that are from green products
- B. % of global assets that are managed in a sustainable and responsible manner
- C. % of S&P 500 report on Sustainability
- D. % of CEO view Sustainability as a means to gain competitive advantages

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## Data and Tools



- Data as an enabler
  - Information Infrastructure
- Traditional financial metrics + Sustainability tools
  - ESG metrics and KPIs
    - ✓ Internally developed (e.g. employee engagement scores, customer loyalty index, reputation indicator)
    - ✓ External sources (e.g. GRI, Bloomberg, third-party consultants, public resources from WBCSD)
  - Benchmark
    - ✓ The Gold-standard Benchmark for a truly sustainable business (2014)
    - ✓ The Future-fit Business Benchmark (2015)
  - Framework
    - ✓ Sustainability Helix (2007)
    - ✓ The Value Driver Model (2013)

We can no longer afford to use the wrong tools in measuring the important asset, or appropriately measure without effective disclosure, or even worse not to measure at all.

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## Insurance & Sustainability

- Risk taking: our core reason for being
  - Insuring ESG risks
  - Inadvertently insured risks
- Investment: economic expression of our thoughts and value
  - Risk and return
  - Impact/ESG investment
- Sustainability of our own business model
  - Net Positive\*
  - Fitness for Future
  - Inner Resilience



\*Measurement is a key challenge



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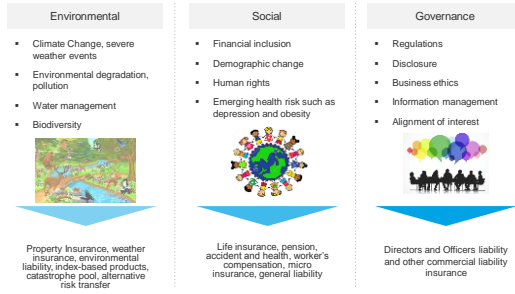
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## The Role of Insurance in Sustainability

Major global problems by ESG category and corresponding insurance solutions



➕ Mitigation service & risk management program design



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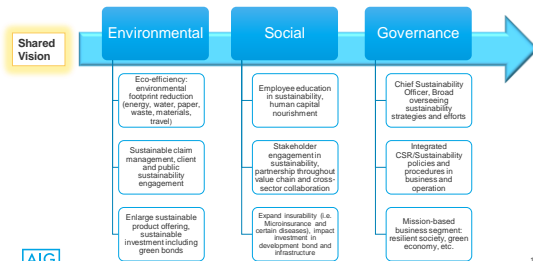
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## Industry Leading Sustainability Practice

- Incorporate Sustainability principles in asset and liability management through Principles of Responsible Investment (PRI) and Principles of Sustainable Insurance (PSI)
- From measurement to reporting



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## Corporate Purpose Matters



Slide used by Brendan LeBlanc, EY, at Sustainable Brands 2015, June 2015. The data is based in EY research.



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## Results from Two Meta-Studies

- More than 100 literatures reviewed by Deutsche Bank:
  - High Sustainability firms have a lower cost of capital in terms of debt and equity
  - 89% of the studies show market-based outperformance of High Sustainability firms and 85% of the studies exhibit accounting-based outperformance
- A study of over 190 papers conducted by the University of Oxford:
  - 88% of the research shows that solid ESG practices result in better operational performance of firms
  - 90% of the studies on the cost of capital show that sound Sustainability standards lower the cost of capital of companies
  - 80% of the studies show that stock price performance of companies is positively influenced by good Sustainability practices.

High Sustainability Firm: A company which has adopted a comprehensive set of corporate policies related to the environment, employees, community, products and customers

Source: Deutsche Bank(2012): Sustainable Investing: Establishing Long-Term Value and Performance and University of Oxford (2014): From Shareholders to Stakeholders



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## Summary: Sustainability Imperative for Insurers

There could be significant financial implications:

- Conscious customers/client
  - Customer demand for responsible/meaningful brand
  - Sustainability Questionnaires/Survey/Assessments becoming more common in commercial clients
- Industry best practice
  - Market differentiation
  - Improvement of balance sheet through sustainability risk management
- More profit, better ROI, higher share price


Cost of comfortable inaction is compounding:

- Reactive to regulatory change/legal standards
  - EU Directive disclosure of non-financial information starting 2017
- Evolution of corporate valuation in context of ESG and sustainability
  - Sustainability rating and reporting



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Sustainable ERM



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Fit-For-Future Business Model



	Traditional business	21 <sup>st</sup> century business
Purpose of the Firm	Maximize shareholder value	Maximize stakeholder shared value including silent stakeholders
Legitimate Forms of Capital	Financial	Financial, Environmental, Social, Human
Bottom Lines	Profit	Profit, Planet, People
Strategic Focus	Growth and Consumption	Stakeholder well-being
Negative Impacts	Externalized	Internalized
Boundaries	The firm	The firm's value chain
Transparency	Less transparent	Transparent
Business model	Sell products, linear, profit short-termism	Sell services, circular, mission-based, Business for Social Good

 \* Special thanks to Sustainability expert Bob Willard for his thought leadership

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Sustainable ERM



Management of ESG issues for the purpose of stakeholders' shared value creation to realize sustainable development of the firm and the society it operates in

Stakeholders

- > Shareholders
- > Other stakeholders including silent stakeholders

Values

- > Economic value, satisfaction and long-term Sustainability

Capital Management

- > Financial capital, environmental capital and social capital, etc.



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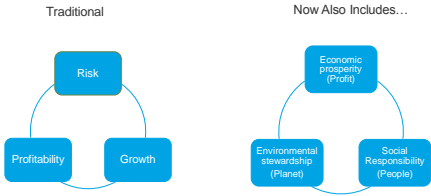
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## Sustainability Implies Adjustment to Corporate Objectives

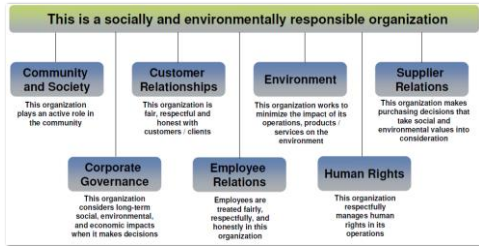


- Create profit for shareholders while protecting the environment and improving the lives of those with whom the corporation interacts

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## Seven Sustainability Dimensions



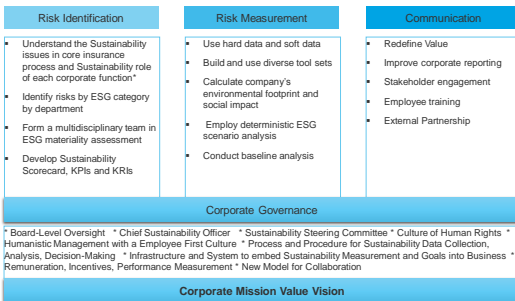
Sustainability risk, an integral part of extended ERM, – how well are we managing it?

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"Engaging Employees through CSR," CSR and Hewitt Associates webinar, January 2010. Based on a slide used during the webinar.

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## Sustainable ERM Framework



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\*Please refer to Appendix C and D

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Think Outside the Box: Downside – Corporate Culture Risk

- #1 risk for corporate failure
- Firms of Endearment
  - Emotional intelligence in the workplace & Humanistic Management
- Text mining in employee surveys/feedbacks
- Sentiment analysis in corporate communication

Competitive	Cooperative
Compete Hierarchies, Rules Infiltrate Explain Independent Firm Single-minded Tough Achievement Disciplined	Collaborate Networks, Alliances Adapt Explore Interdependent Flexible, Compromising Understanding Discussion, Open Relationships Learning

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Source: Sisodia, Wolfe and Sheth (2007): Firms of Endearment [www.firmsofendearament.com](http://www.firmsofendearament.com)

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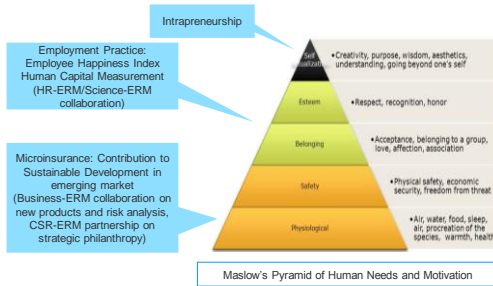
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Think Outside the Box: Upside–Sustainable Development



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Implications for Actuaries and Risk Professionals

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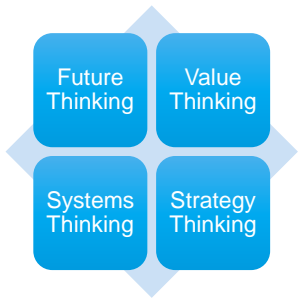
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Sustainability Literacy



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Source: Sustainability Education Framework

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ESG Competency



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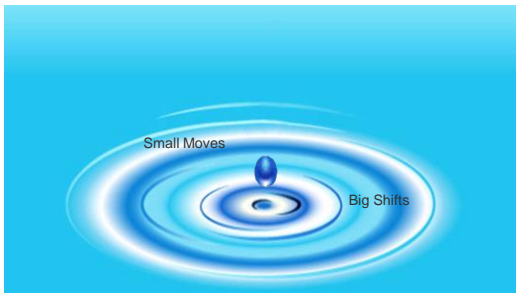
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Our Values, Beliefs and Actions Can Shape a Sustainable World

One Person Matters!



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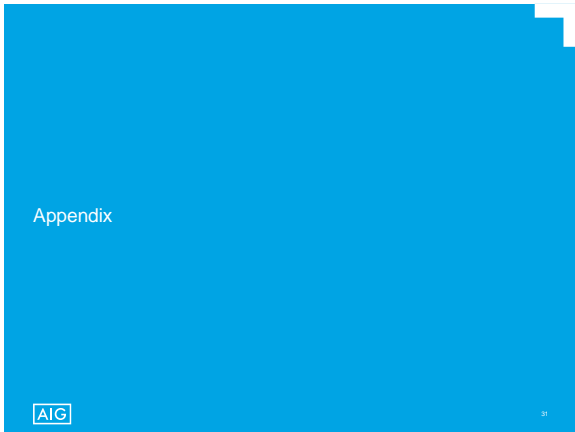
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Appendix



Selection of Material ESG Factors

Environmental ("E")	Social ("S")	Governance ("G")
Biodiversity/land use	Community relations	Accountability
Carbon emissions	Controversial business	Anti-takeover measurement
Climate change risks	Customer relations/product	Board structure/size
Energy usage	Diversity issues	Bribery and corruption
Raw material sourcing	Employee relations	CEO duality
Regulatory/legal risks	Health and safety	Executive compensation scheme
Supply chain management	Human capital management	Ownership structure
Waste and recycling	Human rights	Shareholder rights
Water management	Responsible marketing and R&D	Transparency
Weather events	Union relationships	Voting procedures

Data has been synthesized from several sources: MSCI, USB, SASB and GRI



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Principles of Responsible Investment (PRI)

1. We will incorporate ESG issues into investment analysis and decision-making processes.
  2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
  3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
  4. We will promote acceptance and implementation of the Principles within the investment industry.
  5. We will work together to enhance our effectiveness in implementing the Principles.
  6. We will each report on our activities and progress towards implementing the Principles.
- Assets under management by PRI signatories now stands at more than US\$59 trillion, up from US\$4 trillion at the PRI's launch in 2006
  - For best practice, research paper, company disclosure and other resources, please visit [www.unpri.org](http://www.unpri.org)



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## Principles of Sustainable Insurance (PSI)

1. We will embed in our decision-making environmental, social and governance issues relevant to our insurance business.
  2. We will work together with our clients and business partners to raise awareness of environmental, social and governance issues, manage risk and develop solutions.
  3. We will work together with governments, regulators and other key stakeholders to promote widespread action across society on environmental, social and governance issues.
  4. We will demonstrate accountability and transparency in regularly disclosing publicly our progress in implementing the Principles.
- As of November 2015, 90 organizations have adopted the Principles, including insurers representing approximately 20% of world premium volume and USD 14 trillion in assets under management. The Principles are part of the insurance industry criteria of the Dow Jones Sustainability Indices and FTSE4Good.
  - For best practice, research paper, company disclosure and other resources, please visit [www.unpsi.org](http://www.unpsi.org)

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## Core Insurance Processes and Sustainability

Core Process	Sustainability Issues
Risk Assessment	Fairness in data collection, development of risk models, pricing
Risk Reduction	Advice about alternatives to insurance. Enforcement of risk-reducing measures
Exposure Control	Management of the aggregate risk to avoid insolvency
Product Design	Covering risks that are relevant from an ESG perspective
Distribution	Partnering with networks for efficient access to at-risk customers
Marketing	Consumer product education, fair incentives to take out insurance. Opt-outs
Claims Handling	Speedy and considerate indemnity. Fair dispute resolution
Procurement	Partner with sustainability-minded suppliers for positive ESG impact
Administration	Accurate record-keeping. Accessibility for complaints.

Source: UNEP FI

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## Examples of Sustainability in Corporate Supporting Functions

Department	Sustainability Role	Sustainability Examples
Accounting	Best measure of corporate overall performance	<ul style="list-style-type: none"> <li>• Partner with Data team to track sustainability data in support of measuring company goals and metrics</li> <li>• Innovate accounting process to capture Triple Bottom Lines, etc.</li> </ul>
Finance	Finance activities that matter to our stakeholders and our capabilities for long-term value creation	<ul style="list-style-type: none"> <li>• Research the interplay of ESG risks and balance sheet risk with Risk Analytics</li> <li>• Attract and invest in appropriate sustainability projects</li> <li>• Support ESG integration (e.g. PSI, PRI implementation, etc.)</li> </ul>
Human Resources	Provide environment to enable employees to tap their unique potential	<ul style="list-style-type: none"> <li>• Coordinate corporate functions for ESG training by discipline</li> <li>• Collaborate with Actuarial and Analytics team to measure human capital, etc.</li> </ul>
...	...	...

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Other Helpful Resources

- Harvard Business Review on Sustainability:  
<https://hbr.org/topic/sustainability>
- MIT Sloan Management Review on Sustainability:  
<http://sloanreview.mit.edu/big-ideas/sustainability/>
- Blog of Sustainability Expert Bob Willard:  
<http://sustainabilityadvantage.com/blog/>
- The Guardian Sustainable Business News:  
<http://www.theguardian.com/us/sustainable-business>
- Insight from GreenBiz:  
<https://www.greenbiz.com/insights>
- Sustainability papers downloadable at the websites of some major consulting firms and investment firms

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