

New Horizons: Leadership in Enabling Disaster Resilience

Introduction

This paper intends to provide insights on the vital subject of Disaster Resilience, specific to the role of the insurance market in driving positive pre and post incident behaviors and outcomes.

Earlier this year, the opening address of the 3rd UN World Conference on Disaster Risk Reduction in Sendai, Japan witnessed a united appeal from leading global insurers to world leaders for increased global efforts to build resilience against natural disasters. The *'United for Disaster Resilience Statement'* released as an introduction to the conference emphasized the value of disaster risk reduction and reinforced the criticality of Private-Public partnership in risk preparedness and reduction. The conference then delivered additional impact with the release of the UN Framework for Disaster Risk Reduction 2015-2030, the Sendai Framework.

The opening insurer statement also contained critical messaging on the continued need for action related to climate change adaptation and sustainable mitigation. However, perhaps most significantly, and the focus of this paper, was the clear articulation that the insurance industry is ideally positioned to understand, manage, direct, contribute to global risk mitigation and improvement efforts related to the economic, social and developmental impact of disaster incidents, as a risk taking community.

The Sendai conference subsequently stimulated an increased cadence of dialogue between global policy, regulatory and business leadership in a drive to convert the referenced Framework to a tangible, impactful, beneficial activity, within the global economy. While the enabling frameworks continue to be refined, insurers are beginning to incorporate disaster resilience and climate change considerations into business investment decisions while we see global financial indices developed to incorporate the critical nature of the subject into daily market movements.

Despite such progress, the insurance industry still remains in the early stages of articulating specific, measurable, recurring actions to create a ground up momentum to compliment global framework enablement. The insurance industry's potential leadership in this arena is undisputed given the financial, technical and human capital the industry has engaged in all segments, industrial sectors and global geographies backed up by decades of accumulated engineering, financial, trending data. However, have we seen an insurer claim the first mover advantage on the ground yet? Are we collectively challenging ourselves to deliver to on the PSI principles articulated further in this document?

Global Landscape

Over the last decade, research delivers numbers ranging from \$190B to \$300B in average annual economic lost from disasters, while average annual insured losses sit at a 20-30 percent of these figures. The delta represents not only community and human loss however also lost economic opportunity, risks future emerging market development, and misalignment – through extreme risk as our collective global economy tightens in on itself through increased trade flows, shifts in supply chain, and innovations in global technology. Indeed, the same constituency the insurance industry is seeking to partner with; is the same at risk – directly or indirectly.

Similarly the last decade has seen an increased occurrence of natural disaster occurs in emerging economies now integral to the global business map of the 21st century. As such, multinational corporations have unprecedented opportunity, and complexity in front of them. Both McKinsey's recent 2020 Global Construction and Urban Shifts research reminds us that:

“... there are some 8,000 distinct large companies worldwide with revenue of \$1 billion or more, and three out of four are based in developed regions. We expect an additional 7,000 companies to grow to this size by 2025— and seven out of ten of these new entrants are likely to be based in emerging regions.....There are also forces for higher productivity, innovation, standard setting, and the dissemination of skills and technology.” In addition, “over the next 7 years the global construction industry will grow from \$7.2 trillion to over \$12 trillion. The report shows that developing or emerging countries will overtake developed countries in market share by 2020.”

To reiterate, the same business and sovereign communities which global insurers partner with now, or desire to, are the same entities pushing deeper and farther into new markets – many of them in adverse risks. Today, we have an opportunity to guide them to ensure improved future outcomes.

Sustainable Insurance Principles

The ‘*United for Disaster Resilience Statement*’ was released by a community of insurance company members of the United Nations Environment Programme (UNEP) FI Principles for Sustainable Insurance (PSI). PSI is backed by insurers representing approximately 15 per cent of the world's premium volume with USD 9 trillion assets under their management; which in turn represents over one third of the overall long term assets invested by the global insurance institutional investor community, per IMF reports. Interestingly enough, the IMF recently indicated that investment drivers are shifting with asset allocation being driven most strongly by positive growth prospects and falling risks in the recipient countries versus traditional views of interest rate differentials between countries play a lesser role. We may

consider the risks under review being environmental, social and governance, among others.

The PSI framework – launched at the 2012 UN Conference on Sustainable Development – serves as a global platform to guide the insurance industry to address environmental, social and governance risks and opportunities rests on four guiding principles, summarized below:

- **Principle 1** - Commitment to embed environmental, social and governance considerations in decision making relevant to their respective businesses
- **Principle 2** – Commitment to work with their respective clients and business partners to raise awareness of environmental, social and governance issues, manage risks and development of relevant solutions
- **Principle 3** – Commitment to work together with governments, regulators, and other key stakeholders to promote awareness and impactful action across societies on environmental, social and governance issues
- **Principle 4** – Commitment to demonstrate accountability and transparency by regular public disclosure of progress across such initiatives

It is worth noting that these principles have are incorporated in insurance industry criteria across the Dow Jones, FTSE, and BM&FBOVESPA's respective sustainability indices; we are seeing a gradual absorption into general business practice. Implementation of such principles such they become embedded into the “business as usual” operations of insurers, queried by clients – perhaps actioned in partnership with clients - and on the table in general discussion points, instead of exceptions will take time.

While Disaster Resilience is a recent newcomer to the financial and policy arena the concept of shock recovery, prolonged community effects of change and global awareness have been present in global leadership dialogue for decades. However, each initiative had a starting point in science or policy, experienced a tipping point – driven in part by business community support of global framework principles – to now become mainstream in Boardrooms, inter-ministerial meetings, financial reporting, community action projects, corporate vision statements so necessary to attract millennial talent; encourage pro-active consumption habits, launched films, thrived in social media and the list goes on. Awareness raised, solutions achieved, regulation adopted and engagement through both policymaker and private sector action oriented behavior led to these successes.

Taking a look back at a few, as we gain courage to look ahead:

- **Corporate Social Responsibility** - 1953, Howard Bowen published his book, *Social Responsibilities of the Businessman* where queries related to expectation of the role of business leadership in society garnered attention. Now today, consumers whether corporate or individual query CSR policies of their suppliers, indices measure corporate commitment and in some global procurements is driven by CSR, and families address the subject at dinner.
- **Global Warming & Climate Change** – 1975, an article in Science by Wallace Broecker of Columbia University titled “*Climatic Change: Are we on the Brink of a Pronounced Global Warming?*”, Introduced and linked these concepts – also household concerns and the subject of increased corporate proactivity – for us.
- **International Standards** - 1946 saw a 25 country delegation meet in London with the intent to “facilitate the international coordination and unification of industrial standards”, today at 163 members and 19,500 global standards established to promotion global safety, quality and efficiency; the ISO is a key global partner to governments and business alike in promotion of sustainable development, climate change mitigation, health and safety regulation and consistency in standards to enable global trade and growth.

Facilitation of Disaster Resilience enablement dialogue and its positioning at the top of government and business leaders agendas will be achieved similar to the global game changing concept and institutions noted above through frameworks driven by global policy makers, supported by the focus, action and courage the global business community to take the early first steps. In fact, advancements in global regulation, product innovation, public policy making, fiscal awareness, speed of global communication should expedite Disaster Resilience enablement across at public and private interests alike; as we are hopefully seeing post –Sendai.

Insurance Industry – How to Lead?

As noted earlier, the ‘*United for Disaster Resilience Statement*’ emphasizes need for a whole society approach to enhance an economy’s disaster resilience; led by collaborative public-private partnerships.

Disaster Resilience whether defined by the USIDR, UNEP, APEC, DFID or corporate filings, all incorporate principles of transformation, adaptive learning, collaborative organisation, recognition, advance planning and awareness contributing to future risk reduction. Judith Rodin, President of The Rockefeller Foundation, further states, “Resilience is often thought of in three phases – readiness, responsiveness, and revitalization. The resilience dividend adds a fourth “R” that cuts across each phrase – “return.”

As we consider proactive, engaged fulfilment of the PSI Principles in support of the Sendai framework, clarity on aspects of disaster resilience – as articulated above - allows us more easily define success, to possibly expedite implementation of frontline actions to embed a *Disaster Resilient* culture into future commercial, consumer and community considerations of the future.

Insurers have a role to play in enhancing each one of these areas - transformation, adaptive learning, collaborative organisation, recognition, advance planning and awareness - whether pre or post incident, on the ground or at a distance.

Some examples include:

- **Consortium** with core clients and local stakeholders in a specific geography for sourcing pre or post incident services
- Offer **engineering** or **data benchmark** services to support key geographic expansions
- **Considered underwriting formulas** based on a specific construction or planning characteristics; including benchmark data
- **Specific avoidance** of certain **climate adverse** investment options, given the volume of investment assets controlled by the insurance industry
- Sponsor **young talent** industry engineering and business talent in emerging economies to encourage embedding of positive ESG principles
- **Partnership beyond** the insurance policy between an insurer and their client through dialogue across multiple business units, and common CSR principles
- Overt **sponsorship** of research in the fields of risk management, risk engineering and climate change science
- **Reallocate (or increase!)** CSR funding to incorporate a broader Disaster Resilience agenda
- **Pre & post incident workshop** delivery
- Continue development and support of **sustainable investment vehicles**

The above represents a snapshot of tactical, achievable activity an insurer – the first mover – could take, and communicate widely about, as we challenge ourselves to move the Disaster Resilience focus from the policy forum to the geographies and corporate balance sheets so viciously affected today.

Leadership takes courage, strength to move beyond the shadows of ‘What If?’. We have in front of us an opportunity to embrace a true leadership position; armed with more tools, know how and confidence than any of our other corporate community peers. The insurer who publicly takes the first step, even through a geography or industry pilot (and communicates about it!) will benefit immensely. The insurance industry has long suffered from the stereotype of being old-school, late to the technology party, lacking

innovation, offering ‘necessary but difficult expense to explain’ in the Board Room – all culminating in difficulties to attract young talent and risks of being replaced by alternative financial mechanisms.

Through full application our insurance know how and expertise – in a parallel policy driven AND tactical basis - we have the opportunity to reverse such impressions, while driving improved future global economic benefits.

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