

Sustainability: People, Profits and the Planet

Insurers are on a global mission to develop sustainable goals and promote best practices

In 1983, when the United Nations convened the World Commission on Environment and Development, the concept of sustainability registered barely a blip on the world's radar screen. Through the 25-year filter since then, through oil price shocks, global warming prospects, catastrophic tsunamis, hurricanes and earthquakes, interstate and civil wars, and global terrorism, the idea that the world community can live well now and not sacrifice the future is indeed attractive.

Far-fetched? Not according to the members of the Insurance Working Group (IWG) of the United Nations Environment Programme Finance Initiative (UNEPI), a collection of 18 insurers, including XL, who are actively pursuing such a goal.

The group's inaugural report was issued last year. However, that represented a starting, not an endpoint. Many of us still do not understand fully what constitutes sustainability, where it can take us as a planet, and how we in the insurance industry can contribute to its realization and derive benefit from it. XL Insurance, however, signed on to the IWG to gain a more complete understanding of sustainability and develop and promote best practices.

Sustainability was defined by the World Commission as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs. As we in the business community are driven by the bottom line, we developed a new sustainability bottom-line by which our progress is measured: people, profits, and planet."

To further illustrate, UNEPI chose bamboo as the physical symbol of sustainability as it embodies so many of its characteristics. Bamboo is a renewable resource, it is fast-growing (up to 3 meters a day), its tensile strength is comparable to steel, and it absorbs 25% more CO₂ and produces more oxygen than a comparable stand of trees.

INSURANCE AND BROAD-BASED SUSTAINABILITY

The IWG maintains, and we at XL Insurance agree, that it is in insurers' interest to reduce risks and improve sustainability to improve the probability that premiums will be adequate to meet claims. In a sustainable society, risks are more likely to be insurable and economic growth will be more stable (so that markets will thrive.) The private sector requires sound regulatory framework that ensures reasonable standards of governance and supports innovation.

The IWG is looking at nine issues in which sustainability can exert a powerful influence and which have major implications for insurers, including: climate change, microinsurance, lifelong income, health, emerging manmade risks, environmental liability, natural resources, recycling, and internal efficiency.

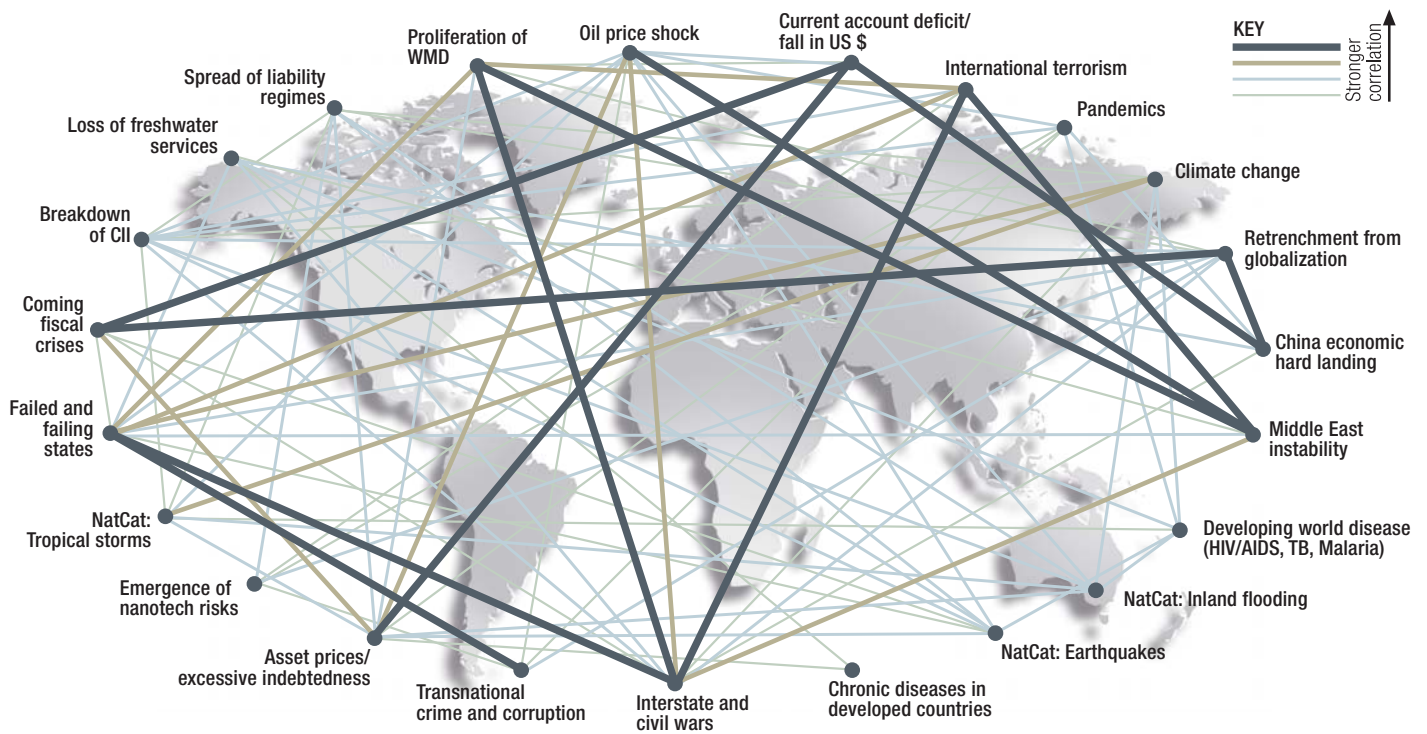
These issues will all be examined individually, yet with the understanding that they all are related to one degree or another. Indeed, all global risks are interconnected as illustrated in the correlation matrix developed by the Global Risk Network of the World Economic Forum (WEF).

The matrix is a sobering depiction that allows us to visualize the enormity of the problems facing us, yet it is also hopeful, in that in a truly sustainable society, when we start to solve one major problem, we exert a positive influence on other problems. The key is to find the right solutions and implement them in the most sound and practical way.

At the IWG, we will be looking at a number of such risks and opportunities, which face the insurance industry, including:

- Will climate change be the 'perfect storm' or a golden opportunity?
- What is the macro potential of microinsurance?
- Will 'baby boomers' have enough for their retirement years?
- How are modern day health risks being addressed?
- Could nanotechnology be the next asbestos?
- Are there products to protect the environment and our natural resources?
- How can assets 'written off' be disposed of profitably and sustainably?
- How is the industry managing its own carbon footprint?

To start, the IWG representatives of XL Insurance are working on two studies embedded in these insurance issues: "Principles for Sustainable Insurance" and "Microfinance & Risk Transfer Issues." These studies are being spearheaded by Alison Bardgett, Assistant Vice President, Senior Project Manager, Global Business Services; Tony Cabot, Country Manager, Italy and responsible for Corporate Social Responsibility in Continental Europe and



GLOBAL RISKS

Source: World Economic Forum, Global Risks 2007: A Global Risk Network Report

Asia; and Mark Budil, Vice President and Director of Risk Management & Control, Switzerland.

“In developing the principles for sustainable insurance, our goal is to develop a ‘black box’ for insurers, a roadmap, if you will, in how to develop sustainable business models,” says Cabot. “Measurability is key. We will embed the sustainable

approach with a logical adaption or transition strategy for existing business models, so at the end of the day, we will be able to say that insurers can do business profitably while building a sustainable world.” The study on microinsurance, natural catastrophe insurance and alternative risk transfer will attempt to link innovative insurance products and mechanisms with the key social issues.

“We recognize there exists a certain amount of skepticism when we talk about sustainability and we take that very seriously,” says Bardgett. “We see, though, that the barriers are coming down as we work toward developing a strategy of adapting sustainable goals to what we already do in the industry. To us, this is not a project, it is a mission.”

