12 August 2011

PETER NEILSON
SPEECH NOTES | PSI CONFERENCE | 12 AUGUST 2011

WHY THE "PRINCIPLES FOR SUSTAINABLE INSURANCE" ARE IMPORTANT TO THE NEW ZEALAND INSURANCE INDUSTRY

Good morning. It is a pleasure to not only attend, but to also be asked by Charles Anderson of Sovereign to briefly speak at this Oceania consultation meeting on the Principles for Sustainable Insurance on why the Principles are important for the New Zealand insurance industry.

Sustainability is a subject that I have devoted a large part of my career to, having been CEO of the New Zealand Business Council for Sustainable Development for 8 years prior to joining the ISI in May this year.

My work at the Business Council was about making sustainability "doing the right thing" profitable and popular.

In undertaking that work we discovered from focus groups and other research that:

- New Zealand employees and consumers expected companies to behave sustainably because it was the right thing to do;
- However, they would not pay you more for the product or service just because it was more sustainably produced – in other words, they would not pay you more for doing what you should be doing anyway;
- *But*, one in three consumers were prepared to move suppliers if they cost about the same but acted more sustainably. While most New Zealanders cannot nominate a good or bad sustainability performer, the potential is there for the best sustainability performer to brand itself and win one third of the market by genuinely doing so;
- We also know that your employees, customers and investors are more loyal and will advocate for you if you authentically act more sustainably.

The insurance service is at one level intangible. People pay us to obtain peace of mind that, if an event they hope will never happen, occurs, in the future, they will receive compensation for it. In the meantime we invest their premiums, acting as trustees for the promises we have made. The trust of our customers in the industry is therefore essential for our own commercial success and sustainability.

The Business Council runs an annual ShapeNZ Fairfax Business and Consumer Survey that looks at issues around sustainability. The latest survey results were released on 1 August so the findings are quite timely in terms of this conference.

The latest survey reported that fewer than a quarter of those surveyed said their organisation actively bought goods and services from suppliers who acted sustainably.

In fact, just 19% included social or environmental criteria in their supplier terms and conditions, while just 9% of respondents had ditched a supplier in the last year for environmental, social or ethical reasons.

Interestingly, business managers and executives were more likely to say their organisation had a sustainable supply chain – 34% said they included social or environmental criteria and 26% said their organisation had ditched a supplier for ethical reasons.

I think there are two interesting points to come out of this year's survey:

1. There is still a lot to be done to develop and implement sustainable business practices in New Zealand companies; and,
2. There appears to be a disconnect between what senior managers and their staff think about their own sustainable practices. And if they can't even agree internally, what do their clients and the public at large think their performance in this area is like?

Environmental, social and governance issues relating to business principles, strategies and operations are not new issues for insurers. As an industry we have integrated these ideas into our operations for years, although not necessarily explicitly – often they have simply been a positive by-product of other business decisions in the underwriting or investments of our business.

Most insurers have very modest environmental and carbon footprints, so their internal ability to make a difference in this regard is limited. In comparison it is not an easy time to be a coal producer in the absence of low cost clean coal technology.

However, where our industry *can* make a significant difference is by making socially responsible decisions that will exert a high level of influence on others. We can do this by making positive decisions about:

- Where we choose to do business;
- How we promote and sell our products and services;
- Who we choose to do business with; and,
- How we choose to invest their funds. For example, as major investors, insurance companies will have to make a decision about whether to invest in lignite extraction in New Zealand.

As an industry, we are in a position to be highly influential when it comes to matters around climate change and increasing uncertainty. The very nature of our industry means that we are constantly addressing the area of risk and taking a long term view.

When IAG chose to build a headquarters building that was 5 star for environmental performance, it was making a stance for its customers, investors and staff who often feel unable to tackle the issue of climate change and environmental degradation on their own.

Our industry has a history of identifying trends and emerging risks, and developing products to fill these gaps. The insurance and reinsurance sectors were early leaders in building awareness of climate change issues.

When Sovereign made the decision to provide life products for those living with HIV/AIDS it was making a powerful statement and providing a challenge for other insurers.

But for all this, there is still much more that we can do.

Success will require a collaborative effort between our industry, government, the people we invest in (and also on behalf of), our clients and the wider public.

Collectively, we have to be seen to be “walking the walk”. We need to be open and honest about what we are doing and the reasons why we are doing it. We need to inform and educate, and lead change.

As the industry association, ISI needs to ensure sustainable principles are at the heart of all industry discussions and debate. But we can’t simply raise concerns - we need to understand the extent of the problem and the implications, and then help to identify and promote solutions.

We also need to challenge industry participants to do better by developing appropriate industry standards and effectively lobbying government to drive good legislation and regulation.

Making this happen will change values, and ensure the public can trust us to do the right thing. It will give them the confidence to give us their business.

And that’s got to be good for everyone.

Trust is fundamental to our industry. If our customers do not believe we can be trusted to act in their interests, we will suffer in two ways:

- Where there is no trust there will be much greater regulation and intereference in business; and,
- If we are not to be trusted then inevitably fewer people will buy our services.

A strong industry commitment to sustainability helps build trust and also answers the question “does my insurer care about me and my country, when it is not selling me something?”.

The Principles for Sustainable Insurance will enable the industry to increase the trust of the community and help us all to prosper in challenging times.

[ENDS]

WHAT ARE THE FOUR PRINCIPLES FOR SUSTAINABLE INSURANCE?

PRINCIPLE 1:
WE WILL SYSTEMATICALLY CONSIDER ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES IN OUR BUSINESS PRINCIPLES, STRATEGIES AND OPERATIONS.

PRINCIPLE 2:
WE WILL ENGAGE WITH INSURANCE INDUSTRY PARTICIPANTS TO RAISE AWARENESS ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES, REDUCE RISK AND DEVELOP SOLUTIONS.

PRINCIPLE 3:
WE WILL WORK TOGETHER WITH SOCIETY TO ENHANCE OUR EFFECTIVENESS IN IMPLEMENTING THE PRINCIPLES.

PRINCIPLE 4:
WE WILL BE TRANSPARENT BY REPORTING ON OUR ACTIVITIES AND PROGRESS IN IMPLEMENTING THE PRINCIPLES.

For further information contact:
Peter Neilson, CEO
Investment Savings & Insurance Association
Telephone 021 395 891

or

Stephen Leslie, Communications Manager
Investment Savings & Insurance Association
Telephone: 04 473 8730
021 139 5470

Visit our website: www.isi.org.nz