



Wednesday, 19 October 2011

Sector session 7

Insuring responsibility: Managing ESG risks inherent in business transaction.

Synopsis: Globalization now means that the general public expects businesses to behave responsibly and be accountable for their actions, such as minimizing their environmental and social footprint. While this footprint is relatively small for the insurance industry, due to the nature of its operations, headline risk has nonetheless increased. Through its core financial services, the insurance industry is involved in some activities that lead to ESG risks and challenges.

Summary: The primary insurer has the direct contact with the client. That role is to take the risk off the shoulder of the client and then the risk goes into the value chain. The insurer needs to inform clients when they make irresponsible decision on ESG issues. Being experts in the field, the insurer's duty is to inform clients about risk and ESG issues.

Insurance is a mechanism for local and global populations to share risks of extreme events; either by taxation, insurance or a hybrid of both. We need to share common view on what is a sustainable behaviour to allow society to flourish. The role of Insurance is to sensitize people and make them aware of risk by helping people invest in premiums or to behave appropriately and to manage risk. Since 2008 recognition of insurance and reinsurance has re-emerged as an industry, by identifying itself as enabler of better business practices for managing ESG risk such as ecosystem degradation, humanitarian crimes, GMOs and water scarcity.

Sustainability is important because it establishes trust and reputation. It implements good corporate governance, risk assessment and it give opportunities for product development. Indeed risk assessment impacts will have an effect on insurers and integrating ESG data into models will force other insurers to follow. In the same way, insurance companies can assist entrepreneurial behaviours in society by sharing information on ESG risks, on new technology and through new product development or sponsorship/partnership with NGO's and finally expanding inflows of capital to fund entrepreneurial activities.