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Speech

Signposts to Sustainability Forum

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In meeting many of our key stakeholders, a constant theme is “who is IAG”?

Before I start, I'll just clarify that Insurance Australia Group is Australia's largest general insurer and trades under a range of brands. The brand which you will all know best is NRMA Insurance which offers home, motor, business, CTP and Workers Compensation Insurance - but we also trade as SGIO, SGIC, State & Circle in NZ, and the most recently purchased CGU & NZI.

If a little over a year ago, someone had told me that tonight, on behalf of the country's largest general insurer, I'd be talking about environmental sustainability, I simply wouldn't have believed them.

And I wouldn't have believed them for two reasons:

First, I, like most of the population, had no real understanding of the role of insurance in the community and in our economy, and therefore couldn't have linked insurance and sustainability.

Secondly, and with my cynic's hat on, I would have suspected that all that could be said would amount to “spin” or pure aspiration in relation to environmental matters.

So, this evening, I'd like to tell you the story of IAG over the past year, share some of the insights that may be relevant to other organisations, and open up our approach to sustainability to some of our most informed critics.

At the outset, I want to stress that we have just embarked on this very long journey and I won't be surprised by anyone who can point out where our house is not in order. In fact I welcome feedback of that sort.

Now that I think I understand insurance, sustainability is a very strong fit for IAG - intellectually, conceptually, AND it makes perfect business sense - for shareholders, customers, our staff and the community.

To appreciate why, it's important to think about what insurance is.

In its broadest sense, we think of insurance as the ultimate community product.

At our core, we do a very simple thing - we pool the premiums of many, to pay for the catastrophic claims of the few.

It's a very basic principle, and underpins our ability to operate as a viable economy. In collecting and disbursing those monies, an insurance company is simply a 'friction cost' in the equation. So our job in running the business is to be on a constant march to keep our cost base as low as possible.

And other than our costs of operating, our largest cost is the cost of claim.

It is here that the link to sustainability is crucial.

Probably our most important social responsibility is to pay all non-fraudulent claims as quickly as possible.

So, for example, when the Canberra Bushfires occurred, our priority was to contact those people insured with us, and get their insurance money to them as quickly as possible. And I'm proud to say that we did that very well.

As you all would be aware, the claims costs of that event have been enormous, and the consequential impact on the Canberran community is posing a great strain.

Now, we could simply operate our business on the basis that all we do is appropriately assess the risk and price the premiums accordingly, and keep our own costs low.

But we think differently. We think it's part of our social responsibility to work with the community to reduce the risk of the catastrophic event occurring in the first place. And the reason we think this way is due to the fact that we have almost 100 years of data about what's been happening in our

community, and we use that information and expertise to predict what's going to happen in future.

And, not suprisingly, it's also in our business interest to reduce risk and catastrophic events, because it reduces the costs of claims - which we'd like to think can, over time, be handed back the community through lower premiums.

I am going to return to the Canberra Bushfires later to demonstrate how this manifests.

When we interrogated our "purpose" as a company over the course of the past year, we realised that there were 2 main areas where we should concentrate in reducing risk - environment and safety.

In the interests of time I'll put safety to one side and concentrate only on environment. But the safety agenda is no less important to us.

As I indicated earlier, IAG has a wonderful resource of data - particularly about the frequency and severity of weather related events across Australia and New Zealand.

And it's important that we do - you cannot insure what you cannot quantify, so we must have an exceptional understanding about what's happening with

the weather to predict what is likely to happen in the future, and price that risk accordingly.

And from what we've been seeing, the frequency and ferocity of storms in this country are more likely to be a part of our future climate. And it's because of global warming.

Tonight I could give you extensive scientific data to make the case that global warming is likely to increase the threat of storms, cyclones and hail to our eastern seaboard – a highly populated part of Australia.

I'm going to ask you to simply trust me on that science, and we have, through our Chief Risk Officer, Tony Coleman, put much of this data into the public domain.

The point I want to stress is that as the link between global warming and insurable events is now clear to us, we are seeing the cost of risk rising.

So, you can see that we approached the question of environmental sustainability with a strong business position - our clear connection with helping people manage and reduce risk in their lives, such that the cost of risk to the community is minimised as much as possible.

But, before talking about what we're doing now, I have to tell you that, as a company we'd been here before.

In the 1990's, the NRMA had a significant environmental focus, culminating in many awards.

When I arrived in the NRMA building in George Street in February last year, I found an NRMA branded coffee mug in the kitchen emblazoned with the slogan "let's go green". I'm told it dated from about 1995. It was ironic to discover that mug in a kitchen with no facility to separate waste into recyclable categories - But more of that later...

Somewhere in the years of change and controversy over the NRMA demutualisation, and our float on the stockmarket in 2000, that commitment to the environment fell through the cracks.

Today, there's very little organisational memory of what we did, or why we did it.

And if there's one major "signpost to sustainability" that I can tell you about, it's that the risk of initiatives failing is high, and that unless sustainability is made part of the way an organisation is run, it will only ever survive for the duration of the people supporting it at the time. And as we know, with the

average term of CEO's in Australia now sitting well under 5 years, it's a critical issue.

So what we've been doing is examining the ways of embedding sustainability in our culture, such that it can't just evaporate, or be criticised simply as a cynical exercise in "green fadism".

Taking this approach is hard, and you have to be in for the long haul. And it's hard to pursue at a time when one of the ways the public gets information about how companies are behaving is through reputational indexes. The reason that makes it hard is that much of what we're doing cannot be explained through these indexes, because it's about a cultural change, which may be not evident externally for some time.

What we're doing is making the issues of environment and safety central to the way we run our business - and that means taking the 11,000 people of the organisation on a credible and consistent journey which they can trust. Over time, we also want to take our customers and the broader community on that journey.

So what are some of the lessons we're learning?

In order to ensure that we weren't kidding ourselves about the role of sustainability, we conducted some research on the community's expectations

of our company, and of the insurance and financial services sector more broadly. The most interesting finding was the relative weighting people gave to what they believed is our prime responsibility.

Unsurprisingly almost 90% of people polled told us that we are totally responsible for ensuring that our sales people act ethically and honestly.

About 60% believe we are totally responsible for managing our business well to help build a secure economy - and by implication, remain profitable so that we can always pay claims.

Lower, but still significant numbers of people expect us to undertake activities more closely associated with sustainability and Corporate Social Responsibility.

The point is simple, but critical:

Consumers don't want environmental & social attributes in lieu of quality, price and excellent service - we want them as well.

We know that the bigger issues for our customers aren't the good things we do for the community, but the premiums we charge and the quality and speed of paying claims.

And investors, however socially responsible they would like to be, are less concerned about our corporate good works if we're losing customers and destroying shareholder value.

I have to make it clear that none of this deters us from pursuing sustainability at IAG. But it does have a very major influence on how we go about it.

Above all it means that we're committing to what you might call customer-focused sustainability.

Being customer focused doesn't mean we ignore other key stakeholder constituencies, like our own people, the wider community and our shareholders. It means we use our customers as the lens through which we look at everything else.

There's a strong rationale for this from a sustainability perspective. Not least because modern consumers and their advocates have great capacity to detect 'spin' and will reject greenwashing very quickly.

There's a "big picture" aspect to our customer focus as well. Arguably the ultimate sustainability challenge in modern society is to change the mass market and consumer buying behaviour - towards products with positive environmental and social attributes, and away from those that cause climate change, poor air quality, social inequity and other so-called externalities.

It's true, for those who say "but what can we do", that we are only one company in a huge global market place. But we do have leverage in our patch. Millions of people in Australia and New Zealand buy our insurance products. We have important supply chain relationships - in areas like motor vehicle repairs and the building industry – and we're Australia's biggest buyer of household white goods and brown goods.

We have to be aggressively proactive in making sure customers know exactly what the risks are in their areas, and whether or not they are covered. When seasonal risks like bushfire or flood threaten, we can do a lot to help people be prepared. After disasters, we can help them recover, as we have been doing following the havoc wrought by the Canberra "fire storms", with expert advice and support on the things people need to know to rebuild in a safe and environmentally sustainable way.

We can even help a little when the whole climate is changing ... with our data, research, public advocacy and education programs, our own emission reduction, and most importantly, innovation around our business processes and our products to help our suppliers and our customers to reduce their emissions as well.

So, what have we done on the environmental front?

- We are embedding into our people management process a rigorous and measurable balanced scorecard - a component of which looks at how we achieve our financial targets. We have now set corporate targets for the company around reducing our own environmental footprint. That has included initiatives like introducing recycling into the corporate offices, and the purchasing of 11.5% green power for our NSW and ACT operations.
- We are sponsoring research into the effects of climate change and global warming on the frequency and severity of extreme weather events.
- We are beginning to use our data and research to raise the level of awareness in the community about the environmental attributes of the homes and cars. For example, we are soon to trial a free online service called the Motor Vehicle Profiler, which gives consumers the ability to compare the environmental and safety aspects of makes and models of cars before they buy.
- We are working on an investment strategy that will include SRI criteria in our stock selection processes, and we will use our voting power and the engagement of companies we invest in to promote positive social and environmental outcomes.
- We are researching the impact on home insurance risk if customers build using more sustainable and safer building materials.

A last word of caution. In spite of all the potential in terms of things we can do, challenges like “it’s not our problem” still loom large, even if the assertion isn’t true. A cynical view is that insurance companies don’t suffer if climate change, for example, means more floods, hail storms and cyclones, because we just reassess the risk and put premiums up accordingly. In fact there’s a big problem for our business and society if prices go too high, and no-one can afford the insurance cover they need.

I think the fact that we are recognising the challenges I’ve mentioned this evening, and that we are trying to address them is a Signpost for Sustainability in business. But for us it’s a signpost at the start of a very long road. We know we’ll make mistakes and we expect that they will be pointed out to us. We welcome that. The best way to not get criticised is to do nothing. That’s not an option for IAG.

Thank you.