

EBA Business of the Environment Conference, 29 March 2004

Speech notes for Sam Mostyn

Introduction

- **[TITLE SLIDE DISPLAYED]**
- **Who we are** - Insurance Australia Group is Australasia's leading insurance group - we provide motor, home, caravan, boat, travel, commercial and rural insurance, and workers compensation cover to over 4.6 million customers in Australia and New Zealand. At any time we have about 11 million policies in force and write over \$5 billion worth of premiums. And as a listed company we have over 1 million shareholders. We trade under a number of well-known brands – NRMA Insurance, SGIO, SGIC, CGU and Swann Insurance in Australia and State and NZI in New Zealand.
- **Overview** - Today I want to talk to you about IAG's sustainability journey – where we started, where we're currently at and where we're headed. And I want to focus specifically on our latest challenge – what is our role in educating consumers about the environment, how do we support long-term behaviour change in the community, and how do we do this credibly and with integrity?
- **Two caveats** for today's presentation:
 1. I'm going to cover ground you may have already heard me speak about on previous occasions. What I say will be similar to what I was saying to you 6 months ago, and even 12 months ago. That's because the work we're doing at IAG around sustainability is iterative. Change is gradual – which we expect it to be when our aim is to embed sustainable thinking and behaviour across an organisation of our size. We want this shift to be deep and lasting. Hopefully today you'll go away with a sense of the latest stage in the IAG sustainability journey – and the challenges we're wrestling with as we move forward.
 2. The second caveat is that I want to acknowledge that there are a multitude of views out there on the nature of the link between global warming, climate change and human activity. Today, I'm going to talk about IAG's views on these issues and our response to them, but there are other views. Climatologists and scientists, including some within IAG, acknowledge that there are degrees of consistency about the link between human behaviour and climate change. There are other factors at work and I'll talk about them further I talk you through some of our data.

So why does an insurance company have a view about the environment?

- As an insurance company, we hold a lot of data about claims. Traditionally, this data has been used to help us price risk and determine the appropriate cost of insurance cover. However, that data we hold is also an extraordinary public asset and it can inform debate around topics as diverse as climate, crime, health and safety in the workplace, road safety, etc.
- Today I'll focus on why we're increasingly commenting on climate and the weather.

The IAG sustainability journey so far

- Our sustainability journey began about 2 years ago when we started to look seriously at our purpose as an insurance company. What is our core business? Why do we exist? What value do we create as a business?
- **Paying Claims** - At the core, insurance is a very simple thing – the community pools money so that, if an individual in the community suffers a hardship, he or she is protected. People hope they won't have to make a claim, but they can live their lives knowing their home, car or business is protected in case they do. Our job, as an insurer, is to pay that money when it's needed. So one way to look at our purpose is to say we pay claims.
- **Pricing risk** - To pay claims, we need to be able to do two things well. First, we need to price risk fairly and appropriately. If we under-price risk, the available funds won't match claims and we go out of business (which isn't good for anyone as the HIH experience brought home). If we over-price risk, people will take their business elsewhere – or they'll choose not to insure at all, which puts them at risk.
- **Control Costs** - The other thing we need to do well is keep our operating costs down. The price of premiums includes not only the measure of risk, but also the costs that go into providing the policy in the first place. Keeping our overhead and infrastructure costs down ensures we can offer affordable insurance.
- **Reducing Risk** – All that data we hold about what's been happening in our community is useful for more than just assessing and pricing risk. It can also help us predict what's going to happen in the future. That is, our data and expertise can also be used to *reduce* the risk of events occurring in the first place. Reducing the risk reduces the cost of claims – which we'd like to think can, over time, be handed back to the community through lower premiums. And satisfied customers (through reduced risk, more affordable premiums) give us the license to grow our business further.
- ESSENTIALLY, WE THINK INSURANCE IS THE ULTIMATE COMMUNITY PRODUCT. SO OUR PURPOSE AS AN INSURANCE COMPANY IS BOTH ABOUT PAYING CLAIMS AND USING OUR UNDERSTANDING OF RISK AND CLAIMS TO ADVISE THE COMMUNITY ON HOW TO MINIMISE RISK. AND IT'S FAR MORE IMPORTANT FOR US UNDERSTAND THE ROLE WE PLAY IN HELPING TO MINIMISE RISK AND HOW THAT SUPPORTS OUR KEY BUSINESS OF PAYING CLAIMS.
- That's why we believe there are important issues (such as the environment) that we should have an opinion on.
- Throughout our journey we've had a commitment to manage the business in a sustainable way as a core obligation – ie. all our activities should:
 1. Improve our relationship with customers, our own people and the communities where we operate
 2. Generate sufficient return for our shareholders, while not being greedy
 3. Participating where relevant in important public debate.

Why we know about the weather

- We know from our claims data that the impact of weather events on our community is increasing.

- Our CEO, Mike Hawker, likes to tell a story that illustrates this point well. In Mike's three years with IAG we have already seen three 1-in-100 year events. (Canberra Bushfires in Christmas 2002, Melbourne Storms in December last year and the NZ floods in February this year – in fact, the NZ floods are the biggest catastrophe on record in NZ.)
- **[NEXT SLIDE – SHOWS RELATIVE COST OF NATURAL DISASTERS IN AUST]**
- 19 of the 20 major insurance catastrophes in Australia have been weather related. This slide shows the 16 most costly insurance events in Australian history. The only event not weather related is the Newcastle earthquake in 1989.
- **[NEXT SLIDE – SHOWS IMPACT OF 25% INCREASE IN WIND SPEED]**
- We know that it only takes a small change in the weather to produce big impacts on the community, both in a personal and financial sense. For example, an increase in peak wind gust strength of 25% leads to an increase of 650% in building damage. So a family in this sort of scenario would not just lose a few tiles of their roof, but they could have their whole roof blown away – with the consequent contents destruction and therefore bigger claims costs. Not to mention the added danger of personal injury.
- **[NEXT SLIDE – SHOWS FURTHER EXAMPLES OF SMALL CHANGES IN WEATHER HAVE AN AMPLIFIED IMPACT ON DAMAGES]**
- Other frightening figures include:
 - An increase in rainfall of 25% in a 30-minute period means that a one in a hundred year flood can become a one in a 17-year flood.
 - A 1% increase in average summer temperatures leads to a 17-28% increase in wild fires.
- All this adds up to bad news for the community.
- Swiss Re estimates that the economic cost of natural disasters, aggravated by global warming, may double to \$150 billion a year in 10 years, hitting insurers with \$30-40 billion in claims, or the equivalent of one World Trade Centre attack annually.
- Another factor driving the increasing impact of extreme weather events is the build up of development on our coastal areas. More than 80% of our population lives within 50 km of the coast – and the proportion is increasing. Our coastal areas are particularly vulnerable to weather hazards and the impact of global warming.
- **[NEXT SLIDE – SHOWS PATH OF SYDNEY STORMS, PARTICULARLY THE 1999 STORM MARKED BY THE GREEN CIRCLES]**
- Example – the Sydney hailstorm in 1999. An earlier slide showed that this storm was Australia's largest insurance loss (around \$1,700 million) but you can see from this slide how much of the storm was actually out to sea. The damage bill would have been considerably more had this storm occurred only a few more kilometres to the west.

What we're doing to educate the community and support behaviour change

- Which brings me to the issue of education and what role we can play as an insurer to use our information to both identify high risk areas and educate the community about these risks.
- We do a lot already to inform and educate the community about what we know about climate change and it's likely impact on our community.

Information sharing

- We share our data and information with the community in a variety of ways. I mentioned earlier that I believe the data we hold is an extraordinary public asset and I believe it's our responsibility to share this data to enable us to make smarter more informed decisions – both at an individual and community level.
- **Conferences and industry forums** - If you haven't heard me speak about these issues before, you may well have heard our CEO or our Chief Risk Officer, or any number of other IAG executives speak at public forums and conferences about these issues.
- We often seek to bring together other relevant stakeholders from industry, government and the broader community to address issues that we believe are bigger than just insurance. Last year, for example, we held a **Flood Summit** in NSW where we brought together a wide range of decision-makers to talk about the increasing amount of housing development in areas that are prone to flooding. Information about flood zones needs to be shared more effectively with the community so we are able to make smarter, more informed decisions about where we build our homes.
- We're also dealing with the issue of flooding in New Zealand, where we're working with **the Thames Corimandal Council and Environment Waikato**. The susceptibility of the local area to flooding meant that people were having trouble getting insurance. We have responded to the dilemma by adjusting our policies so people were able to get cover. We're also working on long-term solutions, including sponsoring research into producing flood maps.
- **Govt – Federal and State** – Eg. Tony Coleman, our Chief Risk Officer, spoke to delegates at the Labour Party National Conference in January this year. We held a session as part of the ALP Fringe Conference. It was a significant opportunity to reach key decision-makers in the political arena.
- **International Forums** – Eg. Pauline Gregg, from our Corporate Sustainability Team is a member of a working group jointly convened by the UN Environment Program's Financial Initiative and the Global Reporting Initiative which is developing environmental performance indicators for the international finance sector.

Leveraging relationships with suppliers

- On behalf of the people we insure we repair a huge number of cars, repair and rebuild thousands of homes and businesses and replace a vast number of household appliances. 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 (eg. TVs, videos, etc). We can influence the whole market by expecting standards of our suppliers that are in-line with our own social and environmental standards.

- Two examples from **our preferred smash repairer scheme**:
 - **Recycling of plastic parts.** Traditionally, damaged parts have been replaced with new ones, but recent developments in plastics and technology mean that plastic parts can be repaired to the same level of quality as before the accident.

Most plastic parts are not biodegradable. Repairing plastic parts wherever possible instead of throwing them away reduces landfill and helps the environment. It also requires less energy to repair plastic parts than it does to produce them so there is an additional environmental benefit.

All the plastic parts discarded in NSW in 2002 would stretch from Sydney to Brisbane. It equates to about 750 tonnes of landfill annually in NSW and ACT alone.

- **Disposal of hazardous waste.** We are also working with our preferred smash repairers to create cost effective processes for the safe and environmentally responsible disposal of hazardous waste such as paint, oil, non-biodegradable parts and toxic waste.

Our aim is to ensure repair shops fully comply with all EPA Act standards.

This project is currently being piloted in VIC and NSW.

- These initiatives are not just about environmental protection; they're also about good governance – they make good business sense.

Helping our people live the dream

- I mentioned earlier that engaging our people was a key concern for us on our sustainability journey. Sharing the information we have on climate change with our people and drawing their attention to the link between personal behaviour and the environment has been critical. Without this, our external position lacks credibility and integrity – it is mere posturing.

In a staff survey we conducted late last year (Community Quiz, done with St John Safety Quiz, Sept 2003 – 80% participation), 98% of our people believed we should be involved in environmental risk reduction activities.

- **[NEXT SLIDE – SHOWS PIC OF PRIUS]**
- **Prius** – we recently purchased 20 Toyota Prius to trial as tool of trade vehicles for our assessors. The Prius is a petrol-electric hybrid car that will allow us significantly reduce our fuel use and carbon dioxide emissions.

Our people have been really excited about the new vehicles and are keen to try them out. In fact, the idea of introducing hybrid cars into our vehicle pool is something that a number of our people have been pushing for a while now!

- **Bottom up action planning & internal corporate targets** - As a business, our biggest environmental impact is our greenhouse emissions generated through our high level of paper usage, travel and energy consumption.

Our short-term environmental targets include:

1. reducing our paper consumption by 15%
2. reducing energy consumption by 15%
3. reducing air travel and fuel usage by 5%

In seeking to reach these targets, some of the best environmental initiatives within the company have come from our employees. We have used staff consultative committees and 'bottom up' approach we call 'action planning' to foster an environment of innovation and collective action.

Through communication channels such as conferences, key influencers' meetings and managers' briefings we began to tell our people the climate change story so they understood the link between climate, global warming and insurance. That was followed by grassroots level 'action planning', where employees were asked to focus on their particular area and make suggestions for reducing our environmental impact.

Staff suggestions could be as big or as simple as people wanted. The breadth of ideas generated has been amazing! There are initiatives that can be implemented at a corporate level such as printing double sided and moving to electronic faxing. At the other end of the spectrum are personal and local environment-saving strategies such as switching off lights and computer monitors when they're not in use.

The program has been successfully implemented in our Personal Insurance area and is now being rolled out across the organisation.

- **RewardHelp** – Our reward and recognition program includes a category for sustainability, where our people are formally recognised for contributions they make to the environment, safety and community.
- **Ensuring alignment between what we do internally and externally is critical.** If we want to have any credibility when speaking with industry groups, consumers, government and policy makers, media and NGO's, we *must* be bringing our own people on the journey with us.

Helping our customers be environmentally sensitive

- In some ways, this is the new frontier for us. While we have already done work around sharing information with our customers, there is still so much we can do. This area provides significant opportunity – it is also an area of great challenge.
- **Educating and influencing consumers** – As Australasia's largest general insurance group, millions of people in Australia and New Zealand buy our insurance products. We can influence our customers to make choices that are better – socially and environmentally. For example, when our customers make a claim for household items such as fridges, washing machines and entertainment systems, we might be able to offer them replacement products that are more energy efficient or 'green'. We can also influence the choices people make about building materials – eg. Canberra Bushfire Help Pack for

customers who lost their homes included information about more sustainable building materials and designs.

- **[NEXT SLIDE – SHOWS SCREEN SHOT OF ON-LINE GREENSAFE CAR PROFILER]**
- **GreenSafe Car Profiler** – This service another example of how we provide consumers with information that helps them make more informed decisions about their purchase decisions. The GreenSafe Car Profiler is an on-line tool that allows people to compare vehicles across a range of environmental and safety factors such as greenhouse gas emissions, crash safety, rear visibility and repair costs.
- **New Products** – This is perhaps the area of greatest impact, and greatest challenge – developing customer products and services that can support and reinforce long-term behaviour change in order to reduce our environmental impact. The challenge is providing customers with a viable and meaningful product – something that is worthy of a customer’s time, consideration and money.

The time is ripe! A recent survey by the NSW Department of Environment and Conservation called **‘Who Cares About the Environment?’** found:

1. 9 out of 10 people (87%) said they were concerned a great deal or a fair amount about the environment.
2. In fact, the environment rated as the third most important thing in people’s lives after family and friends.

The ‘Who Cares About the Environment?’ research has been conducted every three years since 1994. It shows that there has been a significant change in people’s attitudes about the environment over the past ten years. For instance:

1. People are increasingly able to discuss environmental issues in more detail; their knowledge about environmental matter is more sophisticated.
2. People are becoming increasingly willing to pay to protect the environment:
 - Eight in ten people (81%) agree that products that cause environmental problems should cost more
 - Two-thirds of people in NSW (64%) would give up part of their income if they were sure the money would be used to fix environmental problems.

We know consumers want products that help them live in environmentally sustainable ways, but we also know that customers are cautious and sceptical. They’ve been ‘greenwashed’ too often!

We need to tread carefully in this area. Which is why we’ve spent a lot of time getting everything else lined up – our internal culture and processes, our relationships with suppliers, our involvement in decision-making forums in the corporate and government arenas.

We’re also spending a lot of time making sure any products we consider are the right ones – so they need to be sustainable from a consumer and business perspective; they need to represent value in consumers minds. As humans we all show reluctance to change. We resist public transport, car-pooling and other environmentally friendly activities, even when we know they’re good for us, and good for the environment!

Products we're considering include:

1. Motor vehicle policies that allow people to pay a premium based on the number of kilometres they drive.
2. Products that help customers to neutralise their carbon impact
3. Integrated products that involve us pairing with other companies such as motor vehicle manufacturers power companies and so on.

Opportunity or compliance?

The area of product innovation and development is an area of great potential – for business growth, for deepening relationships with our customers and for engaging our employees and building a greater sense of pride in the company for which they work. And this in turn can lead to more innovative ideas being generated.

I am disappointed that more companies don't see this opportunity. For so many, the development of environmentally sustainable products and services is an issue of compliance, or cost reduction.

[NEXT SLIDE – SHOWS KEY FACTS FROM THE 'WHO CARES ABOUT THE ENVIRONMENT?' SURVEY]

In the 'Who Cares About the Environment?' survey I mentioned earlier, 80% of people in NSW said that environmental ratings would have some influence on their decision in purchasing a car. 88% say environmental ratings would have an impact on their decisions in building or renovating their home. This signals a time of great opportunity. People are looking for real viable product and service options that help them behave in environmentally sustainable ways.

An article in the Sydney Morning Herald a week or so ago talked about manufacturers of products such as computers, televisions and other household items receiving fines unless they come up with strategies for disposing of their products in an environmentally friendly way. The Environment Minister, Bob Debus, announced his intention to form an expert panel to look at strategies for reclaiming used items and preventing them from going into landfill.

Quotes from the article:

- *"The days of manufacturers washing their hands of products one they leave the shop are coming to end," said Mr Debus.*
- *Manufacturers will be asked to come up with strategies for reclaiming items households no longer want in order to prevent them from going into landfill.*

Dealing with environmental issues before they become compliance issues is good business sense. It provides exceptional opportunities to be first to market.

Minister Debus' intentions are one more piece of evidence that the environment issue is not going to go away. Consumers are showing an increasing concern for environmental matters and the government has shown it can move quickly.

In the 'Who Cares for the Environment?' survey, at least seven in ten people believe the manufacturing and retail industries, the Commonwealth, State and local governments and individuals all need to do much more to protect the environment.

For companies that stand for something, this is a period of great opportunity. I challenge more corporate to move away from the 'must do' approach and to start

approaching the environment as a 'can do'. Companies who continue to see the environment as a compliance issue are in no position to respond to the changing needs and desires of consumers and will only loose out in the long run.