Abstract – Towards Sustainable Companies: Identifying new avenues

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Insurance as a regulatory mechanism towards sustainable companies

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'For (economic) anomy to end, there must then exist, or be formed, a group which can constitute the system of rules actually needed. Neither political society, in its entirely, nor the State can take over this function … An occupational activity can be efficaciously regulated only be a group intimate enough with it to know its functioning' (Durkheim 1933: 5)

Over the past decade there have been increasingly loud and persistent warnings from scientists (perhaps the loudest of these voices have been those of climate scientists) that the risk landscapes within which humans and other species operate are changing rapidly and perhaps irremedially. The primary reason for these changes, it has been argued, is the way in which human engagements with earth systems have impacting on these systems (anthropogenic effects). Although there has been much controversy surrounded these warnings they are increasingly being heeded globally by a variety of institutions within the public, private and civil society sectors. How these warnings are being heeded varies widely and is shaped by the nature of existing institutional processes – in particular their mentalities and technologies.

Institutions whose core functions are concerned with responding to risks arising from bio-physical systems have, not surprisingly, been particularly aware of the warnings of scientists. This receptivity has been enhanced by the fact that these institutions have, over the past several decades, been impacted by bio-physical outputs (in particular catastrophes) that are causing them to question their risk assessment mentalities and technologies.

A new fundamental commitment to environmental sustainability in he operation of companies is necessary. We, in this paper, argue that traditional external regulation is an insufficient mechanism to facilitate such a transformation. We are arguing that there are two conditions that need to be fulfilled for this to happen.

1. One needs to have a place within society, a set of institutions, that will be open to hearing (has a listening) the messages of the natural sciences, namely, that the world is different from the way we have imagined it in our minds, different from the sensibilities that shape the way in which we run our engagement with the planet (our economies).

2. This place, this set of institutions, needs to be influential, in the sense that if they change they will bring about changes way beyond themselves. They need to be leverage or fulcrum points.

If we look at what is currently happening there is quite a lot emerging that relates to condition 1. Lots of places are hearing the message of science, e.g. NGOs and others. However, there is not a lot happening with respect to condition 2. The focus for condition 2 has been on states, but these are not proving to be good listeners or good actors. We need to identify places that have a good listening (because of change they are confronting) and that have a direct impact on the way people and business engage earth systems (places outside of states).

A set of f institutions that potentially has the capacity for combining 1 and 2 is the insurance industry – an industry that has experienced increased, and unanticipated, claims from policyholders who have experienced a variety of bio-physical perils, in particular climate related perils. This experience has been such that it has undermined the solvency of many companies and has come to be regarded within the industry globally as a serious threat to the solvency of the industry as a whole.

The insurance industry is particularly influential as a risk assessor and manager as it regulatory impacts are both deep and widespread. Within developed economies these impacts reach into almost every household and every business. These regulatory impacts include the creation of markets for risk management products and services, for example, those provided by the private security industry. As noted by Richard Ericson 'insurance is **the** institution of governance beyond the state' (2003: 360). The insurance industry appears as if it may be beginning to reshape its business mentality from one of growth to sustainability.

This paper explores the role of insurance as a regulatory mechanism towards sustainable companies. It does so by looking at ongoing processes taking place at two levels:

1. At the global level by exploring the role of UNEP's Financial Initiative
2. At the company level through a study of one UNEP FI member institution; a South African leading short term insurer.

Since the 1990s, the UN Environment Programme (UNEP) has worked in line with the idea that the financial sector has a valuable contribution to make in protecting the environment while maintaining the health and profitability of their businesses. The capacity of the insurance industry in addressing global sustainability issues, as risk managers, risk carriers and institutional investors have been underestimated, according to UNEP FI. Consequently, the UNEP Financial Initiative (FI) was launched in 2003; merging the already existing Financial Institutions Initiative (FII) and their Insurance Industry Initiative (III). As of today there are over 190 company members of the initiative, including fund managers, banks, reinsurers and insurers, many of them lead business institutions within their sector. The initiative is run by the members, and supported by a small secretary in Geneva.

The paper explores and discuss the role of UNEP FI as a new governance system at the global level which can be thought of as a set of parallel processes to multilateral state to state negotiations, and one within which states play a fairly insignificant role as governing nodes. A focus is on the different technologies that the Financial Initiative utilises to induce companies to integrate environmental concerns more effectively into their internal workings (facilitating capacity building for environmental risk management; formulating principles of sustainable insurance and investment; communicating sustainable 'best practices'; building regional business networks, organising annual conferences, producing and transmitting research on the need for economic transformation, etc.) The paper discuss barriers and opportunities that the goals of this regulatory system, aiming for companies to commit themselves ethically and voluntarily to sustainable practices – can be effectively achieved.

Furthermore, the paper investigates transformations taking place within a historically well established and large South African insurance company (and a member of the Financial Initiative). The company insures against loss for bio-physical events such as fire, flooding and storm surges. A question is how they are responding to, what they perceive to be, a rapidly changing socio-bio-physical risk landscape. In particular, the paper focuses on how existing institutional processes within this company are being reshaped and the way in which these institutional processes are themselves shaping these changes. It traces ongoing changes in basic insurance ‘mentalities’ within the company (a growing acknowledgement of the anthropogenic effect on climate change and a perception that contemporary socio-biophysical systems are inherently unstable requiring new knowledge as an alternative or supplement to the past-oriented actuarial expertise) and how this triggers new technologies of risk management (beyond the traditional focus of inducing clients to manage their own risks towards new company initiatives seeking to enrol a broader set of governing nodes in risk management (municipalities, security companies, universities, etc.))

The focus on transformative processes taking place within the insurance sector, at global and local level, will enable the paper to interrogate existing socio-political theoretical accounts of the processes that shape change, and resistance to change, within institutions – for example, accounts of “wicked problems”, “social traps” and what might be thought of as “regulatory traps”. This analysis will provide insights into how societies, at locations outside of intergovernmental negotiations and through shifts in state regulations, are responding to the warnings from scientists of threats posed to humans, and other species, by global environmental change.