



INTERNATIONAL SUSTAINABILITY UNIT

Speech for the ICMIF Conference

17th October 2017

Ladies and Gentlemen, I was enormously touched to have been asked by Shaun Tarbuck to speak to you today at this deeply impressive gathering of the global Good and the Great from the Mutual Insurance sector. I did caution him that any such speech came with a substantial health warning as I'm not entirely convinced that my year in Aon, almost twenty years ago, is really much of a qualification in the face of such an august audience. Shaun assured me that it wasn't my knowledge of the insurance industry he was after - as if – but rather some reflections on the challenges that we are facing and the opportunities for positive change. You have my deepest sympathy!

There are many of you here today who have already made remarkable contributions to devising innovative and important ways by which the insurance and finance sectors can contribute to finding solutions to some of the developmental and environmental challenges we are facing. I would like to start by acknowledging and thanking you for all that you do. Your work, as I fear the next 30 minutes will show, could not be more vital.

So, Ladies and Gentlemen, How Goes the Battle? Well, to be honest, not entirely brilliantly! For, as the remarkable Johan Rockström, the Director of the Stockholm Resilience Centre, puts it far more eloquently than I ever could, having enjoyed the luxury of five decades of hitting the ceiling of our world's biophysical capacity, we have managed, all by ourselves, to find an exit from the stable interglacial of the Holocene era of the last 12,000 years (the only era we know for certain can support civilisations and the world as we know it) and have now created and entered the age of the Anthropocene. Not quite the achievement it might have been! We are exceeding the ecosystem carrying capacity of the Earth by 1.4 times and our rates of pollution and degradation of our soils, air, water and oceans have reached positively insane proportions. We are heading towards increasing the global average temperature by 4 C by the end of the century and 40 percent of the world's agricultural land is seriously degraded and it is estimated that in seven years' time, two out of three people will live in water stressed places. Worryingly, the small successes we had a few years ago to slow deforestation seem to have evaporated as

global rates of deforestation continue apace at over 10 million ha of forest loss annually and show no signs of slowing down. It is perhaps salient to remember that unless we stop and reverse deforestation, we have absolutely no hope of staying within a world warmed by 1.5, 2 or even 3 degrees C.

The Ocean, I'm afraid to say, isn't in great shape either. This is a shame for it provides 3bn people with a fifth of their protein; fishing and aquaculture provide employment for 10 percent of the world's population, and, it is estimated, the Ocean provides us with the oxygen for every other breath we take and stores nine tenths of the heat trapped by greenhouse gas emissions. We are putting 8 million tonnes of plastic into the sea each year (all the plastic we've put there since the 1950's is still around in one way, shape form or the other) and we are very close to reaching the point when whatever wild-caught fish you eat will contain plastic. 80 percent of fish stocks are harvested either beyond or at their sustainable limits and we stand a very good chance of losing many of the world's coral reefs by 2050.

Meanwhile, more people are hungry, with the number of malnourished rising from 777 million in 2015 to 816 million in 2016, equivalent to 11 percent of the world's population, and is a five percent increase from two years ago. This figure includes almost 155 million, or one in four children under the age of five, with a further 52 million children classified as 'wasting'. The long-term impact of this degree of malnourishment on cognitive ability and immune systems at such an early age is considerable and when combined with meagre education potentially catastrophic; it is also perhaps worth noting that, globally, 15 percent of adults are illiterate and 17 percent of children aged between 12-15 are not actually in school.

And, as we all know, unprecedented numbers of people are now on the move; there are 65 million displaced people (1 in every 113 people on the planet), among whom 22.5 million are refugees, over half of whom are under the age of 18. There are also 10 million stateless people and 20 people are displaced every minute as a result of conflict or persecution. 43% of world's poor are in conflict and fragile states. And, just to round off this happy litany of our world's ills, 9% of our fellow citizens don't have access to potable water, 17% don't have access to electricity, 32% don't have access to improved sanitation, and 38 percent lack access to clean cooking facilities. And, of course, despite Humanity now having become the dominant force on the planet – hence the Anthropocene – it is perhaps just worth reflecting that it isn't actually 'our' planet, we share it with our fellow denizens, although less so than we did, as we are inducting a loss of biodiversity at 1,000 times the natural rate of extinction, thereby manufacturing the 6th mass extinction event in the planet's history. In terms of the stewardship of our small blue dot of the only habitable rock in our solar system, the last fifty years have been entirely and utterly catastrophic, for during it we have undone the safe-operating space of the last 12,000 years. It seems as if the next fifty years will determine the next 12,000.

And, as we are discovering, in the same way that long periods of incremental change have so weakened the planet's ecosystem's integrity so that non-linear abrupt change is becoming evident, societies that have endured decades of post-conflict merely being the desperate prelude to pre-conflict and then conflict are themselves reaching abrupt tipping points of social, economic and political insecurity. And, as we consider the drivers of instability and the causal links between them, it is worth also remembering that even if the Paris Agreement were successful, we still stand a fifty percent chance of losing our coral reefs and Arctic sea ice as the planet is now irrevocably committed to change. And of course, natural disasters, as you all know very well, are on the increase. For according to the excellent Sustainable Insurance Forum Report between 2005 and 2015, over 700,000 people died, 1.4 million were injured and 23 million made homeless on account of natural disasters, with more than 1.5 billion being affected. Since 2008, on average 26.4 million people have been displaced by natural disasters every year, equivalent to one person every second! Total economic losses since the beginning of the century amount to \$2.5 trillion, of which only 30% were insured and of this only 2% in low to middle income countries. According to the World Bank, 26 million people are pushed into poverty every year as a result of extreme weather.

So, given all this inexorably bad news, what can we do to stay in the safe operating space that mimics the Holocene within the turbulence of the Anthropocene? Well, SDGs 6 (Clean Water and Sanitation), 13 (Climate Action), 14 (Life under Water) and 15 (Life on Land) are, have to be, non-negotiable; we have to peak our emissions in 2020, have zero carbon emissions by 2050 (including from agriculture and forestry) and achieve negative carbon emissions from 2050 to the end of the century. To do this we have no choice but to abandon the economic models of perpetual growth being fuelled by diminishing resources, to stop testing our planet to destruction and, as Johan Rockström has succinctly put it, we need a Carbon Law, along the same lines of Moore's Law, whereby we halve carbon emissions every decade.

It is unutterably tragic that as we start to comprehend the full enormity and universality of the impact of climate change and resource depletion, and therefore the urgent need to embrace political and economic models born of the resilience to be found in partnership, that the inequalities within our societies have conjured up identity shibboleths that have wrought an appetite to re-forge asymmetries that are the antithesis of multilateralism and consensus building. It is arguable, I would have thought, that the answer to our predicament does not lie in out-worn political and economic systems and a rehashed version of 19th Century mercantilism. In an interconnected world that is becoming overwhelmed by the endlessly iterative and aggregated impact of our actions, we need surely to recast the geography of our intellectual landscape by looking with open eyes at the environmental and social

wastelands we have created and, in response, harness our intelligence and our compassion to build societies that are restorative and regenerative.

This is difficult, but it is not impossible. We certainly have the money, we increasingly have the technology, but do we have the will to forgo our sense of entitlement to irresponsibility? And where do we look for the leadership to pull together the partnerships to construct the integrated solutions required to address these systemic problems? We must look to ourselves, for in the well-known phrase of Mahatma Gandhi, 'we must become the change we want'.

For, despite the attraction, one might have thought, of the \$12 trillion dollars and 600 million additional jobs that would be engendered by the successful implementation of the Sustainable Development Goals, governments are, if not in retreat, then certainly less resolutely in the vanguard than they might be in being proactive in designing the economic policies that are required. But anyway, as we all really know, they alone could not, cannot and will not provide all the transformative change we need. We can and we must.

Transformative change is possible. But to attain it we need to embrace the concept of a circular economy that builds partnerships and eschews the paradigm of a linear progression that creates, uses and discards and rather embrace one that creates, uses, recovers, recycles, restores and recreates. A circular economy needs to construct a regenerative and distributive industrial ecosystem that builds efficiency and resilience and is based on regenerative economic design. The question surely should be how many different benefits can be included in any project, company or endeavour rather than how much can be extracted from it in the shortest time, for the greatest benefit of the fewest people? As Kate Raworth says in her excellent book “Doughnut Economics’ we need a regenerative finance model that supports growth not by hoarding money, but by putting savings and credit into productive investments that deliver long-term social and environmental values. As Kate describes, this will entail, must entail, decoupling GDP growth from resource use because the reinforcing feedback loops of GDP growth have well and truly hit the buffers of the balancing feedback loop of the Earth’s ecosystem carrying capacity.

And, when I say transformational change, I mean it. We need a monumental move away from fossil fuels with an urgent and structural shift towards renewable energy, restorative agriculture and forestry, public transport and zero-carbon buildings. And we simply have to find a way of not putting plastic into the sea and of taking out what is already there! If the \$90 trillion of infrastructure investment in the next 20 years is not at minimum levels of carbon emissions we will be in a very bad place indeed. This is very different from being sufficiently astute only to invest in climate resilient infrastructure, although, as 65 percent of the world’s cities over 2 million people are on the coast, this is not an inconsiderable factor, not least because

of the impact on the marine ecosystems, but it is also essential that the emissions generated in this simply gargantuan building programme and its subsequent use are also taken into account. And, unlike Midas, we also need to recognise that not all 'wealth' is money and we should seek out, support and cherish those other forms – cultural, physical, social and natural – which provide us with the ballast for the survival of our civilisation.

But, as you know much better than I, so often the impermeable barrier to taking any 'courageous' action is risk. The herd instinct so often beguiles with the false security of tried and tested patterns of behaviour that are agnostic about cliffs, but despite rumours to the contrary, I assure you it is better to be a live fox than a dead lemming!

And providing the means to manage such risk, Ladies and Gentlemen, is where you come in – at last, I hear you cry.

You will know far better than me that the stimulus to the modern insurance industry was the response to the risks inherent in the disaster of the Great Fire of London in 1666 and that the third of the companies to be formed in the decades afterwards, in 1696, in Tom's Coffee House (subsequently much frequented by Thomas Chatterton and David Garrick at a time when coffee was described as '*Pluto's diet-drink, that witches tipple out of dead men's skulls*'), in Birchin Lane, was the Hand-in-Hand Fire and Life Insurance Company, originally known by the snappy title of 'Contributors for Insuring Houses, Chambers or Rooms by Loss by Fire, by Amicable Contribution'. I understand that like many good things it has ended up under the care of our friends in Aviva. Hand-in-Hand was a Mutual Insurance company: Mutual, from the Latin *Mutuus*, – held in common by two or more parties; Insurance, ensurance, assurance – from *Securus*, free from care, safe. Well, if insurance is a response to perceived risk and mutual insurance an envelope to protect from risk what we hold in common, then planet Earth is your biggest client!

You certainly don't need me to tell you that between 1995 and 2015 90% of disasters were weather related and that the severity of these disasters is set to increase, or to tell you about the losses caused by the recent hurricanes, let alone the fires in California, the floods in Bangladesh and Vietnam; hundreds of billions of dollars in a few weeks; what used to be 1 in 100 year events are now 1 in 50 or less and are being perceived by many communities and governments as more frequent still. It is a well-known truth that the people who bear the brunt of these disasters are those who are typically the most vulnerable, although recent events in the US provide a counterfactual to that. The great truth about Climate Change is that it is the most perfectly formed risk multiplier imaginable, especially when applied to ecological, social, economic and political systems that are already fragile and under stress.

And so what to do? Well, you are in the frame. Not only are you the custodians of \$31 trillion dollars under management (which is, by anyone's reckoning, a lot), but your understanding of risk, whether political, economic, technical, environmental, public or private and how to mitigate it, means that you have become an essential bridging mechanism between yesterday's Holocene and today's Anthropocene. Not only in terms of providing mechanisms to reduce the cost of the risk of investment, but, as pertinently, creating the economic syntax, the semiotics, that enable us to measure, value and protect the planet's natural assets by seeing them, in part, as asset classes. Looked at in this way, Marine Protected Areas are the insurance policy for fisheries, Coral reefs, which habitually remove 97% of storm surges (as well as holding 2/5ths of all marine species on two percent of the seabed and providing food and livelihoods for more than one billion people) are the insurance policy for coastal communities; forests, that provide more or less the other breath we take and a very great deal of our weather, protect most of the biodiversity that isn't in coral reefs, are the insurance policy for crop yields; education is the insurance policy for stability. And so it goes on. If you want to safeguard your property, health and life insurance policies, one might suggest that you consider investing in protecting the planet.

When confronted by those who wish to invest in the sectors and projects that will doom us and our children and grandchildren to almost unimaginable dislocation, surely the answer should not be 'Yes, of course, they have always proved to be very safe', but rather 'how stranded do you like your assets?' Also, given the risks that insurance companies are facing, to invest in asset classes that are proven to increase the chances of larger losses must, surely, be considered as nothing if not slightly idiosyncratic and possibly not entirely within any sane definition of fiduciary responsibility? It is notable perhaps, that while 60% of insurers recognise climate risk as an issue, two fifths have chosen not to take remedial action to protect their portfolios. I am, frankly, also somewhat concerned by the 40 percent who haven't recognised climate change as an issue – a remarkable response, one might have thought, from the actuarial profession to the biggest threat of our time. In the same way that it is 'notable' that only 20% of global premium volume is covered by companies that have signed up to the Principles of Sustainable Insurance and that institutional investors have so far only managed to allocate less than 1% of their assets to investments that might be considered green. So only 99 percent to go! However, one must also acknowledge the efforts of some part of the insurance industry to address these issues, including the UN Secretary General's Climate Resilience Initiative, the UNFCCC's Clearing House under its Loss and Damage Mechanism, the UN Principles for Sustainable Insurance and also ClimateWise, initiated by HRH The Prince of Wales, which with the Cambridge Institute of Sustainability Leadership does much good work in helping the insurance sector respond to the risks and opportunities of climate change.

There is also the question of how to bridge the divide between the environment, development and humanitarian sectors. The fact they are still considered to exist, certainly for funding purposes, in their own distinct silos is almost wilfully myopic. We badly need to understand the causal relationship between the problems and the solutions that uniformly determine these issues. And, in this regard, I applaud ICMIF and all the other organisations involved in supporting the Insurance Development Forum, which is set to become a supremely important mechanism to drive positive change.

The same sort of intelligence is required to do a number of other things too. For instance; to work out the way in which, and then how to scale, the means to insure the viability of the SME sector by insuring that impact investment can be encouraged to reach parts of the economy that others cannot reach on the understandable grounds that SME's are small, frequently unbankable and normally only accessible to local currency – yet they are the bedrock for most economies; how to provide the glue to ensure that blended finance can operate effectively; how to structure more finely the relationship between public sector guarantees and private sector first loss provision; how do you structure PPPs so that risk management is equitable and effective; how to transmute institutional investor reticence into proactive engagement; how to structure liquidity funds as the guaranteed exits that enable Institutional and Impact Investing to be large enough actually to have an impact; how to augment the role of micro-insurance and its relationship to micro-finance and how to relate both to universal access to life and health insurance that is affordable so that financial inclusion becomes a reality rather than an aspiration?

All these actions are more easily attainable when government and regulators play their part and here I must applaud the work of France for the passing of Energy Transition Law, Article 173 of which, to quote again from the recent paper by the Sustainable Insurance Forum, requires '*institutional investors, including insurance companies, to disclose information on their risk management of climate change consequences and to take into account the environmental footprint of their investment policy.*' (a little more of that would not go amiss). It would also help if the FSB's suggestion for voluntary assessment of climate risk became mandatory - why not? Or, if through the great work of Steve Waygood at Aviva, the universal benchmark for sustainability was adopted by the market; it would also help if fiduciary responsibility became an incentive for investment that embraces a sustainable future and revolves around genuinely ecosystem-based approaches to management. These relatively small adjustments would go a long way to ensure that the \$2 trillion a year of additional investment that is needed to achieve the SDG's would be mobilised and the resulting 600 million new jobs would be created.

The trouble is that the problems we face are not only enormous; they are also systemic and interrelated. You, within the insurance sector, are only too aware of this

because you are so often caught on all angles of the covariant impacts on various challenges. The remedy to these problems can only be found by building a consensus across a wide range of stakeholders and communities. Given this, the progress being made via multi-sector collaborations, including between countries, the finance sector, multilateral agencies, scientists, major companies, N.G.O.s and campaign groups could not be more welcome but the key for the success of much of this is intelligent risk management.

As His Holiness, Pope Francis wrote in a recent open letter to the attendees of the Our Ocean conference in Malta, we need to build a covenant between Humanity and the Environment. You, Ladies and Gentleman, are not only among the key architects of such a covenant's design, but by virtue of your skills in identifying, assessing and managing risks, you are among the pilots who will, who must, guide its progress through the very choppy seas of the next two decades. The mutual insurance model of managing risk and returning the profit to your clients is, if you think about it, a model that really reflects the imperative to mitigate the threats to the planet that we all hold in common, to ensure that we have a safe home. Yours is a model that already reflects regenerative finance, for you recognise the essential equity of long-term participation and the benefits of inclusion.

And as for the decision, 321 years ago, in Tom's Coffee House just a few hundred yards up the road, in reaction to the devastation of fire, so too for the response that we are all honour-bound to give to the defining challenge of our civilisation, as encapsulated by the SDGs - we leave no one behind.

Justin Mundy

The Prince of Wales's International Sustainability Unit
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