Convergence in Sustainable Business: The Imperative To Act

The following was a keynote speech given by our Head of ESG Innovation, Marie-Josée Privyk, during the International Cooperative and Mutual Insurance Federation (ICMIF) Americas Digital Conference 2021.

Hello everyone, good morning or good afternoon.

I'm honored and grateful to be with you to kick off your digital conference for the Americas under the theme of *Innovation and Inclusiveness in Changing Times*.

Like many people working in sustainable finance today, I am a traditional capital markets professional. My own background is in sell-side financial analysis and corporate investor relations. What we have in common, or how we got here, is an imperceptible and yet profound change in our thinking–or mindset–to embrace sustainability. Now, sustainability may evoke different things to different people. In a way (at its core), sustainability means to maintain, and ideally improve, our wellbeing–everything from our health, to making a decent living, accessing the products and services we need and want, being able to do the things that bring us joy and fulfillment. There are a few essential ingredients to this concept that I will come back to a little later on. A somewhat more serious – but entirely accurate – definition of sustainability is our ability to thrive as a species on this planet, which is our only home.

I believe this change in mindset to sustainability is gaining more attention and more traction for two reasons. The **first** is that some of the very conditions necessary to human life are threatening to disappear – you will have guessed I'm referring to the consequences of climate change here. With the most recent Intergovernmental Panel on Climate Change assessment report being dubbed a "code red for humanity", the COP26 meetings happening as we speak are undoubtedly among the most significant in modern times. But there are other systemic issues that threaten our wellbeing, chief among them biodiversity loss, pollution, and ever-increasing social inequalities. At the Conference of Parties on Biodiversity held last month, one hundred countries signed the Kunming Declaration acknowledging "that the interrelated crises of biodiversity loss, climate change, land and ocean degradation, pollution, and increasing risks to human health and food security, pose an existential threat to our society, our culture, our prosperity, and our planet".

Heads of global corporations feel the same way. The top risks in terms of both likelihood and impact identified by the World Economic Forum's 2021 Global Risks report were climate action failure, infectious diseases, human environmental damage, biodiversity loss, and extreme weather.

The **second** reason for the change in mindset to sustainability is the recognition that we are responsible for the situation we're in today. This is not someone else's problem, nor is it a particular constituent's sole responsibility – nor will it fix itself. In other words, by our decisions and actions, governments, capital providers, companies, and consumers are contributing to climate change, biodiversity loss, pollution, wealth inequalities and growing social unrest, human rights violations, and discrimination.

The change in mindset to sustainability is manifested by the growing convergence toward a common understanding of what it means and what we need to do to achieve it.

We are collectively becoming aware that the issues we face are not only global in nature, but that the three dimensions of sustainability–our economic, social, and environmental wellbeing–are both interconnected and concurrent.

Interconnected, because we can't really isolate the economic, social, and environmental dimensions of human activity–and concurrent, because we can't hope to address these dimensions one at a time, or one after the other.

The pandemic provided a great empirical example of this. This was of course a crisis not only of people's health, but many people also suffered from very difficult working conditions while others lost their livelihoods altogether. Many businesses closed, and we are still feeling the effects of supply chain disruptions. We also learned that the source of the viral pandemic very likely traces back to the loss of biodiversity, due to years of deforestation and poorly planned urban development. Finally, the unequal distribution of vaccines across the globe has only exacerbated social and wealth inequalities, despite jeopardizing our own self-interest. Surely, we can do better.

Another telling example is the winter storm that took Texas by surprise last February, where people had no electricity, no heat, and no running water. They couldn't go to work because they couldn't walk or drive on the icy roads. Many manufacturers had to stop production, which caused supply chain disruptions that rippled through the economy. Estimates of the economic costs from this storm alone range from 197 to 295 billion dollars. It's quite easy to see how this "extreme weather" environmental event took a toll on the social and economic well-being of many people. In its recent *Roadmap to build an economy resilient to climate change impacts*, the White House estimates that one in three Americans has been affected by extreme weather this year alone.

The global community is also converging on a common definition of sustainable development. By now, you've probably heard it defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. This is the definition of the Brundtland report produced in 1987 by the World Commission on Environment and Development.

This very high-level definition has been made more concrete by the 17 Sustainable Development Goals – or SDGs – adopted unanimously by all members of the United Nations in 2015. They have been called "the closest thing the world has to a sustainability strategy." Very simply, they aim to end poverty, protect the planet, and ensure peace and prosperity around the globe by 2030, and to "leave no one behind". Somewhat less simply, the 17 goals break down into 169 targets and 232 performance indicators. Countless organizations, including governments, providers of capital, companies, and non-profit organizations have embraced the SDGs. The UN Principles for Responsible Investment provides research and resources for investors to align their responsible investment practices with the broader sustainable objectives of society, which in their view are best defined by the SDGs. And according to KPMG research on global corporate sustainability reporting practices, almost three-quarters of the largest companies in 49 different countries report their sustainability practices against the SDGs.

But what does this convergence of awareness and understanding of sustainability actually mean?

First, it means that the solution to these global, systemic issues must be global and holistic, in other words all constituents must participate: governments, capital providers, companies, and individuals. We must work together, at the same time, on solving the same problems, with the same goals. In other words–all hands on deck.

Second, it means that we must measure and manage the positive and negative social and environmental impacts of our economic activities, including those considered externalities, which the OECD defines as "situations when the effect of production or consumption of goods and services imposes costs or benefits on others which are not reflected in the prices charged for the goods and services being provided". One way to include externalities in what we measure and manage is to properly value the commons – in other words the resources, capitals, inputs, and ecosystems that are necessary to so much of what we produce and consume, but belong to and affect the whole of our communities. These are not free, they are not limitless, and we all have a responsibility to take care of them. It is estimated that as much as half of global GDP is dependent on ecosystems and 13 of the 18 sectors that comprise the FTSE 100 are associated with production processes that have high or very high material dependence on nature.

Third, this convergence of awareness and understanding of sustainability means rethinking how we measure development beyond Gross Domestic Product to include measures of social and environmental wellbeing, or better yet circumscribing our economic development within social boundaries on the downside and ecological or planetary boundaries on the upside.

For businesses, the growing collective awareness of the interconnection and concurrency of economic, environmental, and social considerations has spurred an evolution towards a more holistic approach to managing risks and opportunities, first to include issues of an environmental, social, and governance nature into their business strategy, risk management, and performance measurement, and second to include not only those issues that affect organizations, but also those issues that organizations can affect. These issues are multidimensional and complex, ranging from product safety to energy efficiency, water consumption, and waste management, from employee health and safety, to talent attraction and retention, and diversity and inclusion, from human rights, to cybersecurity, ethics and corruption, and responsible taxes. Indeed, ESG is an acronym designating a multitude of very different issues, which reside in very different places throughout an organization's value chain, and are measured by very different performance indicators.

To be clear, not all sustainability issues affect all companies, and proper integration of sustainability rests on the proper identification of material issues, which can be defined as those that substantively affect the organization's ability to create value over the short, medium and long term. Defining one's material issues inevitably requires taking into account one's stakeholders, including investors, but also bankers, insurers, customers, and employees, each of whom are themselves taking sustainability into account when making their decisions–decisions that can directly affect companies' operating performance and financial condition. There is indeed a direct connection between how well a company manages its material environmental, social, and governance risks and opportunities and its ability to generate cash flows–or value for itself–as well as its ability to reduce its negative impacts and increase its positive impacts, or value for the environment and society. Today, this is best encapsulated in the definition of corporate purpose, which the British Academy terms "to profitably solve the problems of people and planet, and not profit from creating problems". Profits and impact are becoming the competitive norm.

Perhaps most importantly, the convergence of awareness and understanding of sustainability is igniting–many would say finally–a sense of urgency to act.

In the face of global warming, biodiversity loss, worsening pollution, and pervasive social inequality, if we do nothing, we are, collectively, running into a wall.

A case in point is climate change. The world now agrees that i) climate change is real and caused by human activity, as demonstrated by 97% of the world's scientists, ii) that it's an "existential threat", as stated by the US Treasury Secretary and many other high-level decision-makers, and iii) that there is an urgency to act, with science telling us we have less than ten years to reduce emissions enough to limit global warming to 1.5 degree Celsius and avoid the most catastrophic consequences of climate change.

If identifying the problem is good, having a solution is better. The world is now rallying around a common, global solution inspired by the commitments of the Paris Agreement. We are aligned on the science-based objectives ofNet zero CO2 emissions by 2050, with interim goals of a 50% reduction in emissions by 2030 from 2010 levels. We are aligned on modeling, with the publicly-available scenarios of the Network for Greening the Financial System, which represents 90 central banks and financial supervisors. We are aligned on a strategy and roadmap, with the International Energy Agency's Net Zero by 2050 plan. We are aligned on performance expectations for companies with the Climate Action 100+ Net Zero Company Benchmark, the Climate Transition Pathways Accreditation framework, and the Science-Based Targets Initiative's Net Zero Standard, and we're aligned on performance expectations for investors, with the *Glasgow Financial Alliance for Net Zero* and the PCAF's *Global Carbon Accounting Standard for the Financial Industry*. We are aligned on performance indicators, with scope 1, 2, and 3 emissions, as calculated using the GHG Protocol. And finally, we are aligned on how to hold ourselves accountable, with reporting that follows the recommendations of the Task force on Climate-related Financial Disclosures, or TCFD. **In the face of this "code red for humanity", there is still much work to be done. But the path is pretty clear.**

I often refer to climate change as the sustainability issue that will open the door to all other issues, cutting a path on what to do and how to do it. So it's encouraging to see the speed at which governments, capital providers, and companies are mobilizing in a concerted way to address biodiversity loss, with global targets set by the Convention on Biological Diversity of "no net loss" of biodiversity by 2030 and a "net gain" by 2050, with the creation earlier this year of the Task force on Nature-related Financial Disclosures, and with the signing a few weeks ago of the Kunming Declaration.

Underpinning these global mobilization efforts is indeed the change in mindset to sustainability I have been describing. Earlier, I mentioned there are some essential ingredients to the concept of sustainability, and I believe there are three. **One**, is a much wider lens through which to assess risks, including those previously thought too uncertain to predict or too unlikely to consider. **Two**, is a much longer term assessment horizon, one that goes beyond our own lifespan and allows us to make the right decisions even when we are not the ones who will enjoy their benefits. And **three**, is a much broader embracement of the collective “we” to include all human beings, those who are present today and those of the future.

To these essential ingredients I would add two necessary conditions. The maturity to accept that this is not someone else’s problem, it’s ours. And the courage to change, not just incrementally but radically, what we value and therefore what we measure and manage.

As mutual/cooperative values-led insurers, you are not only important financial market participants, but also global sustainability “influencers” in that many aspects of sustainability are at the heart of your business model. You are in the business of risk, and you have to know that risks are rising. On climate change alone, the value at risk from climate-induced hazards is estimated to increase from about 2 percent to more than 4 percent of global GDP in 2050. By the very nature of your activities, you are on the front lines of the effects of systemic issues such as climate change, biodiversity loss, and social inequality. You must take these into account in planning for your future–to make sure you have a future. You must prepare for those effects that are inevitable and those that are probable, by adjusting what you insure–or don’t–and at what price. Through your products and services, you are an integral component of your customers’ risk management plans. You also provide them peace of mind and financial security. And through your products and services as well as your investments, you can help drive changes in behaviors and in outcomes that are consistent with sustainability objectives. Now that’s purposeful.

Personally, I am encouraged by the signs I am seeing of the shift in mindset to sustainability in all spheres of our ecosystem–governments, regulators, think tanks, researchers, capital providers, companies, non-profits, and individuals.

It’s hard, it’s long, and it’s messy.

It requires us to work together, at the same time, on the same objectives. And to do more, faster.

I hope this conference achieves its noble objectives of bringing you new insights, restating your values, and inspiring you to act on them.

I urge you to inform yourself about sustainability and what it means for you, to determine what role you can play in your current function–whatever it may be–and to put your shoulder to the wheel that’s already in motion.

Thank you.