

CORPORATE SOCIAL RESPONSIBILITY

WHAT DOES IT MEAN FOR THE INSURANCE INDUSTRY?

A Question Of Definition

First, we should start with a definition. Unfortunately, there are almost as many definitions of Corporate Social Responsibility (CSR) as there are experts in the field. (And that's a great many people these days.) But most would agree that it means, in essence, that a business has responsibilities over and above its obligation to maximise the return on its shareholders' investment. CSR posits that businesses also have responsibilities to a much wider group of stakeholders, including their employees, their customers and all of the communities in which they operate whether locally or globally.

This question of definition has been further complicated by changes in terminology. Today, many businesses choose to use terms such as Corporate Responsibility, Sustainable Development or Sustainability in preference to CSR. In part, this change is a reflection of the growing importance that everyone is attaching to global warming and consequent climate change - for some, the term Corporate Social Responsibility is just too limiting.

Sustainable Development, which is generally defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs", is viewed in a number of quarters as significantly more apposite. As a term, it carries none of the vague echoes of philanthropy which CSR might be said to convey. It recognises the need of businesses to continue developing - i.e. continue making profits. And it embraces the reality of the consequences of environmental degradation that, historically, businesses have inflicted on the planet.

But whichever term is used (and for the purposes of this article, in order to avoid confusion, we will continue to use the term CSR) the principles are the same. If we want the world to prosper tomorrow, we need to be conscious of what we're doing today – what we're doing to people and what we're doing to the environment.

What Does It Have To Do With Insurance? (Part 1)

So what is the significance of CSR for the insurance industry specifically?

In fact, it has a double significance. For a start, CSR is not simply about "doing good". Nor is it just about managing risk, although that is a part of it. It is also about identifying and taking advantage of opportunity.

CSR is an all-embracing concept. It touches every area of a business's activities. For example, looking after your employees – ensuring they are treated fairly, ensuring

they have opportunities to realise their full potential – isn't just an ethical issue, it's also sound business practice. If you want to prosper today, you need to keep your best people. If you want to prosper tomorrow, you need to ensure that you're developing talent and actively working to retain it. Similarly with the issue of diversity. Again, it isn't just a question of principle, or a question of meeting regulatory quotas. It's about making sure that you really are recruiting and promoting the best people; it's about making sure that the face your business presents to the world is recognisable to the world you're trying to sell to.

And that world is becoming ever more informed and ever more judgemental. It isn't just a "nice" idea to do "nice" things for your local community (although it's true that it is worthwhile for its own sake). Thinking about the needs of, and the impact you're having on, any community in which you operate should be a fundamental part of your PR thinking. It should be a fundamental part of your CSR strategy.

As public attitudes change, so too do the criteria upon which investors make their decisions. Again, it's a development based on hard-headed pragmatism. It isn't the case that the entire investment community has suddenly acquired a transformative social conscience (although there are now plenty of investors who are fundamentally concerned about ethical and environmental issues). Rather, it's the case that the investment community is starting to see which way the wind is blowing. They can see what the public is thinking and they want to put their money in companies which the public wants to do business with.

Staying ahead of the game (or, at the very least, keeping up with the leaders) has to form a part of any business survival strategy. People are concerned about issues that, once upon a time, most businesses could ignore. A failure to recognise and respond to that fact could cost you customers, lose you key employees, and generate the kind of negative publicity that no business can afford. Taking note of what consumers and the wider public expect from your business could be the stepping stone to the development of a competitive edge – the first step on a path towards truly sustainable development.

What Does It Have To Do With Insurance? (Part 2)

There is another reason why CSR is relevant. There can be little doubt that the effects of ongoing climate change, across the globe, will have significant implications for all sectors of the insurance industry. And this is key to understanding the risk/opportunity duality of CSR. As people who understand and manage risk, insurers are ideally positioned to take the initiative in analysing and helping to mitigate some of the effects of climate change. But there was a reason why our recently published report was not titled "Coping with Climate Change Risks" but "Coping with Climate Change Risks and Opportunities".

Some people are arguing that in the current recession, concerns about the environment will slip down the agenda. But this is a dangerous assumption. Whilst it is impossible to make specific predictions, it is widely accepted that catastrophic climate events are almost certain to increase in frequency. Not only can the insurance industry play a significant role in dealing with some of the risks of climate change (from flooding and storm damage to, in extreme cases, social unrest and international tension) there is also a real opportunity to take advantage of new markets - Alternative Risk Transfer (ART) products being just one example.

For those insurers who are wise enough to adapt and respond fast, smart enough to see the true significance of CSR, climate change is as much an opportunity as a risk-management exercise.

A Global Perspective

Despite the vehement opposition of a number of key thinkers (most notably, Milton Friedman) who believed that businesses should concern themselves exclusively with financial returns on investment, the concept of Corporate Social Responsibility, in its present form, first emerged in the USA. Over the last 20 years, it has also developed rapidly in the UK and across Europe.

Why has this phenomenon emerged? There are a number of inter-related reasons. Changing public attitudes to business-generated (and insurance-relevant) catastrophes - from the Union Carbide plant leakage in Bhopal to the "Exxon Valdez" disaster; the recent, rapid development of the internet and related media technologies that have enabled the instant dissemination of news and opinions; the increasingly sophisticated lobbying of NGOs and other interested groups; the involvement/creation of supra-national bodies from the UN to the IPCC.

In other words, there have been societal and cultural changes taking place that no business can really afford to ignore. So far, national governments (in the US and Europe) have tended to follow rather than lead. But decisions taken by the European Union in recent years suggest that a more regulatory approach on this side of the Atlantic is by no means out of the question. And whilst it may not opt for a legislative route, the new Obama administration in the USA is clearly more sympathetic than its predecessor to the underlying principles of CSR and may well seek to exert influence in support of those principles.

If for no other reason than you don't want to be forced into it, taking CSR seriously now would be a sensible move.

But is it just a developed-world phenomenon? Can one do business elsewhere around the globe without having to worry about these issues? At an environmental level, clearly not. The worst impacts of climate change – with all the insurance implications – are most likely to be felt outside Europe and the US (notwithstanding future re-runs of Hurricane Katrina). But nor can one afford to ignore it from a socio-political perspective.

In November 2008, the seventh (yes, the seventh) annual Asian Forum on Corporate Social Responsibility was held in Singapore. Senior executives from governments, corporates and NGOs delivered keynote speeches over a two-day event. CSR Asia, a leading provider of information, training, research and consultancy services on sustainable business practices across the continent has offices in Beijing, Hong Kong, Kuala Lumpur, Shenzhen and Singapore and partnerships in Vietnam, Thailand and Bangladesh.

In Africa, partly through the developing role of NGOs and the continental extension of some multinationals' CSR policies, there is a measurable shift in approach from philanthropic aid-giving towards sustainable development; a shift which is reflected in everything from the active engagement of employees to the responsible use of resources.

To put it another way, CSR is a part of, and a shaper of, the globalisation process. You can't escape it. And, as we hope this article has demonstrated, you wouldn't want to escape it.

A Model Answer?

A model answer? There isn't one. Or, if there is, it's outside the scope of this article to present it. Since CSR is an all-encompassing business concept, individual companies will find their own ways (possibly with the help of expert consultants) to integrate new ways of thinking and carrying out their operations. The right approach for a business involved in one area of the insurance market may not be the right approach for a business involved in another area – whether sectoral or geographical. The critical first step, for every business, is the development of a corporate CSR vision and the engagement of all its employees in the realisation of that vision.