

FUTURE SIGHT PODCAST

Ep.19: The Grey Area of Sustainability





Future Sight Podcast by Capgemini Invent

As business and technology move forward at a rapid rate it has become increasingly important to explore new ways to adapt and grow for the future. This podcast is your guide to that future journey.

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Episode Transcript

Ollie Judge: This is [Future Sight](#), a show from Capgemini Invent. I'm Ollie Judge. On this show, we explore new ways for you to adapt and grow for the future in business. Today, we're kicking off a series of episodes looking into a topic that's at the top of everyone's minds – sustainability. This episode is going to be a bit of an explainer and a deep dive into an area that's a bit off the beaten track.

Every industry faces its own challenges and struggles to become truly sustainable. However, one industry has a rather unique set of variables that might go beyond what you might expect; that industry is insurance. When you think of insurance, you probably think about people in offices examining risks and assigning it a number. The truth is those risks have so much more to unpack that impact our planet and the way that not just the insurance industry operates but every other one does too.

So, this episode, we're going to look at the thought process behind those risks and discover how moves are being made in the insurance industry that can help your industry make strides towards a more sustainable future.

Seth Rachlin: I think that challenge has come from the number of dimensions that [insurance companies have to tackle when it comes to sustainability](#).

So, there's obviously, at the most basic level, there's their own conduct, you know, their use of expensive data centers, of tremendous amounts of paper, and the predominance of travel.

Hi, I am [Seth Rachlin](#), global insurance industry leader for Capgemini. All of the things that I think any company that wants to be more sustainable and reduce its own carbon footprint has to do.

And so that's kind of almost like square zero. But then the other facets that come into play, insurance companies are significant investors. They have large balance sheets of investible assets and sustainable investment practices come to play there.

Ollie: Beyond the assets that insurance companies have. Their main source of business is weighing up a risk. Will or won't this thing happen. Sometimes those risks by their very nature can't be sustainable.

Seth: They are risk takers, underwriters. And in that context, they are doing business with companies that may or may not be following sustainable practices. The most obvious example is the coal industry but there are a number of other industries where underwriting practices probably can and should be evolved to take into account what their customers are doing from a sustainability perspective. Another element I think that's critically important when we look at insurance and particularly [property and casualty insurance is that 50% of all global insurance premium in the property and casualty sector is motor insurance, automobile insurance](#).

And so, the lifeblood of the sector is in fact connected to an industry that fundamentally needs to change to become, to create a more sustainable universe. And lastly, you know, is kind of, sort of on the business consequences side, that when you think about climate change and you think about the severity and frequency of large climate events, think about, you know, most recently the European flooding unprecedented in many respects that all hits insurers, you know, from a loss perspective.

And the insurance industry I believe has an imperative to rally around their customers and help them be more resilient in terms of how they react to and can handle this. So, I think that demands significant innovation on the product side, on the services side to create a more resilient economy and society as climate related risks emerge. It's clearly, you know, from what I've just said, a very complicated problem and one that has multiple facets, involves kind of the entire organization.

If you think about it from the claims' units to the underwriting units, to the investment units, to HR, it's a kind of full enterprise challenge and one that, because of all those facets, is tough to tackle.

Ollie: As Seth mentioned, sustainability isn't an easy thing for insurance companies to face when your bottom line fundamentally relies on sectors like automotive or not-so-clean energy, you need to start thinking, not just internally but also how you interact with clients that may be having a negative impact on sustainable goals.

The question is then with such a wide net of sectors and risks on the table, where do you even start with encouraging not just your own organization, but also the ones you work with, to start thinking sustainably?



Seth: I think, you know, there's a great book called "Nudge." And "Nudge" is about all of the different ways that businesses and public policy makers can leverage that combination of incentives and penalties to get people to effectively do the right thing. And insurance has always been very good at that in the sense that we reward safe drivers.

We reward people for putting sprinklers in their homes. We reward people for putting alarm systems in their homes, because if you do the right thing and you reduce your level of risk then you benefit in terms of the prices you pay for insurance and your ability to access insurance in the market.

And as I think about the insurance products of the future, they need to be designed and engineered in a way where they are providing the right nudges for people to do the right thing and to behave responsibly. Almost every insurance company now has some form of an offering where they reward people for driving safely through telematics.

Could those telematics devices also reward people for ecologically friendly driving procedures, driving at the right speed, not taking too many short trips, all of those kinds of things. Well, absolutely. It's just requires the imagination and the will to think about the product in a different way, and to create those incentives for their customers to do the right thing.

Ollie: Even with the gentle nudges, it does seem that there is a large grey area shrouded around coal, oil and geographies that may not be able to subscribe to a more sustainable way of thinking. So much trade passes through countries or regions that may not have access to the right tools, or in some cases like cargo ships, the technology might not be there to replace the way business is done. So how should insurance companies interface with this kind of risk? And is there anything that they can do?

Seth: Yeah, it is a good question. And I think it's a nuanced one. I think there's obviously certain industries and certain things that the industry can and should shy away from, in terms of becoming a sustainable enterprise. But there's also, as you point out, a lot of probably shades of grey there; and insurance has always been, and should be, a very client-focused business.

And I believe that insurers need to partner with their clients to help them manage the full scale of risks that they are involved in and that they take. And to, as I kind of alluded to before, (insurers need to) do everything possible to nudge them (their clients) in the right direction. But I'm not particularly in favor of almost red lining whole major areas of risk or major areas of operation, because I don't think that's realistic, and I don't think that's the mission that the industry is there to serve.

The industry is there to help society manage risks. Environmental risk is now an incredibly important aspect of that risk management, but it's part of a broader sort of panoply of risks that come to bear in any kind of commercial endeavor.

Ollie: I thought it'd be worth getting into the detail there. It's one thing to say, you're going to be more sustainable, but another to actually action it. Leadership of insurance companies tend to be quite detached from the conversations happening in the markets between underwriters, brokers, and the insured.

One thing Seth said was important to get right, is to instill the sustainable approach as a way of thinking or behavior within your organization. After all, if you can't get it right internally, it would be a bit of an uphill struggle to communicate to external parties. Hear Seth and what he thought the right approach was for inspiring change internally to get things right on the ground.

Seth: As a customer-focused business, you are in business to serve your customers and you can try to get them to do the right thing, but it's hard to necessarily mandate them to do the right thing.

I think more broadly than that though, we talked about earlier about the multidimensional nature of the problem. And because of the problem has as many dimensions as it does and because the approach to sustainability, not distinct, frankly, from the approach that most companies are taking to innovation, is to create a chief sustainability officer or chief innovation officer and rely on a separate group to drive the objective through the enterprise.

I think you have to be more holistic in your approach. And I think ultimately it comes down to KPIs and to measuring people for doing sustainable things. But if I'm the product owner for auto insurance or motor insurance, do I have as part of my KPIs that I am incentivizing and moving my customer base to electric vehicle?



If I don't, then wishing for that to happen is not a solution. If I'm in risk control or loss control, risk engineering and claims, am I working with customers to help them withstand the next storm better? And do I have a KPI around that? About my use of preventative measures and risk mitigation strategies?

If I have a KPI around it, it'll happen; if I don't have the KPI around it, it won't. So fundamentally to me, it's about mobilizing the areas in the organization where sustainable practices are expected, providing true hard KPIs around it. And then driving the behavior as opposed to creating a separate group that's off doing separate activities that are not connected to the core business of the enterprise.

Ollie: And that's just it. It's very difficult to make progress without measuring something. While other organizations in other industries may be able to put a number on the carbon footprint of their workforce or measure the amount of fuel their fleet uses, insurers once again may be able to keep an eye on their office workforce, but the exponential impact of where they work with external risks has a big impact on their sustainability bottom line. Seth had a unique way of looking at this, but it wasn't as simplistic as putting a number on your carbon footprint.

Seth: I think the way you measure is based on, you know, for an insurance company it's all about capital allocation. Insurance is a capital allocation business. So, if I'm in the investment organization, I'm allocating capital to things that I expect to grow that capital, funding the insurance side of the operation; I'm allocating capital to risk. And to me, the only thing that they have consistency in is, in the sense that, what percent of that capital is actually allocated a sustainable operation, sustainable risk, whether it's investment risk or underwriting risk. And that encompasses the things we're talking about with electric cars. It encompasses really all of the products and services and clients that the insurance company writes. And, it encompasses how they take the premium dollars in investment. And to me, at a certain level, at the high level we're talking about now, it's a fairly simple concept, which is how much capital are we allocating towards sustainable green, behaviors, risks, operations, et cetera.

Ollie: Most companies see insurance as an additive service or something they are required to do, not something that they want to do. With that, I imagine there was a limit on what insurers could do to point their clients in the right direction. I also thought about what he thought the levers were that insurers could use with their risks to gently move those who may be more resistant to change in the right direction.

Seth: When you think about insurance as a service, it's a price-driven business, right? I mean, people buy on price and coverage terms. And the lever typically comes within prices and coverage terms. So, the levers that insurers have are to raise and reduce prices or to specifically include or exclude types of risks, or to provide additional services on top of the risk equation. And that's fundamentally what insurance can do with respect to B2B customers. And so, what do I mean by that? I mean, you don't necessarily have to exclude, you don't have to deny coverage to say that there are certain risks that if the insured doesn't do the right thing, you simply won't cover.

You create an exclusion for a particular type of behavior. So, if you don't, you know, put in, if you don't equip your fleet with the right set of tracking devices and optimization devices, then you know, you won't get the best coverage or you won't get the value-added fleet management services that the insurer provides.

It's a commercial relationship between the insured and the insurer. And the insurer has, I think, a pretty good set of levers to play with. Now, obviously, it's a competitive market as well. And so that means that insurers always worry, if I'm too aggressive, I'll lose this customer to somebody else.

I think the important thing to realize though, is that we are in a, what is called a hard market within insurance. And what that means is that the pricing environment is highly favorable to insurers right now. So, prices are going up and they continue to go up. And the reason they go up and are continuing to go up is because of the level of risk that's out there and the nature of that risk.

And so, I honestly believe that insurance customers can do good by doing the right thing. And if they take actions to reduce risk then they benefit from a pricing perspective. I think the insurers are in a powerful position right now with respect to this issue. I think the climate has a lot to do with that.

And I think that there's a tremendous sensitivity to issues of sustainability driven by the nature of the climate events that most insurance customers are suffering from.

Ollie: The insurance industry, rather humorously is known for the amount of paper it generates. If you've ever been around one of the global markets, you'll often see brokers with giant folders worth of paper.



You could say that this in itself was negatively affecting any effort towards a more sustainable future. Bearing that in mind, I wanted to understand at a more systemic level, what was being done across the entire industry rather than just by individual companies.

Seth: I think, at its core, the paper issue will go away. And by that I mean, I started in this business almost 30 years ago and we were drowning in paper and now we're only waist deep.

So, I see the paper piece going away. I do think that, you know, what a number of senior leaders in the industry are talking about is really reconceptualizing the business from a risk transfer business, to a business that's based on a partnership. And where I see the industry going is working with customers, whether they're individuals or they're businesses, as partners in managing the risks of tomorrow. And the risks of tomorrow are climate, cyber, various forms of business interruptions that are tied to political instability and those types of things.

And I think in all of those areas the notion of active mitigation exists, and I think sustainability plays into that very naturally. Sustainable practices are exactly about the things that keep the world going and keep businesses going.

And, you know, the fate of business is tied to the fate of the world. And I think insurers have a real ability, through the role they play in the economy, to create the nexus between those two things in a way that is meaningful and actionable.

Ollie: While I was recording this episode, it really struck me how sustainable practices have to be baked in at the lowest level. Insurance offers a unique look into where organizations need to start, but also the problems they can face. This is just the start of our journey into sustainability.

In the next week, we'll be speaking to an insurance company that has already made waves in this space. We'll also look at the challenges they faced. Following on from that, my co-host Liz will be taking a deep dive look into what happens when we reach beyond net zero. A big thank you to Seth. You can find out more about the work that he does in the show notes.

If you enjoyed this episode, please be sure to subscribe in Apple Podcasts, Spotify, or wherever you find your podcasts. This has been Future Sight – a show from Capgemini Invent. We'll be back soon.

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