

**ADDRESS TO THE ASIA PACIFIC BANKING + FINANCE
RANDSTAD LEADERS LECTURE SERIES**

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**Storm warning – the critical role of business in areas of
national interest**

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When people think about insurance they tend to think mainly about the aftermath of floods, storms, bushfires, and other natural disasters.

Australian insurers have decades of experience dealing with these and other types of events and, in recent years, we've had to deal with a lot more of them than in the past.

While we'll always be there to help our customers recover at times of need, we believe that prevention is always better than cure. And, at the heart of this approach, is the concept of shared value.

We didn't coin this term but I think it's very applicable to what we as an industry do. Harvard's Michael Porter describes shared value as addressing a social issue with a business model.

Without necessarily calling it by name, insurers apply the principle of shared value to many of their activities, from providing products which hedge against risk to educating communities on how to reduce their exposure to a range of risks.

Businesses which embrace the shared value concept know that by addressing the broader needs of society, they create economic value for both communities and themselves.

Businesses involved in shared value recognise that their customers are better informed than ever before and, as a result, societal expectations of business are changing and changing very rapidly.

This is a figurative storm warning for business.

Increasingly, people want to deal with businesses which operate in a way which is aligned to their own values. Forward-thinking businesses consider the needs, expectations and concerns of society and they try to construct win-win situations for all their constituents.

It's not enough to meet customer needs only in term of the product or service you provide. And businesses ignore what their customers want at their peril.

Today, companies get their place at the starting line by offering good service at a fair price. They win, in the long run, by working to make a positive difference in a way which is meaningful to their customers and their wider stakeholders.

Thinking businesses are increasingly recognising this.

In my view, the business community has a crucial leadership role in creating shared value through using its voice as well as its scale and influence to address matters of national importance.

Today I'd like to discuss shared value and how at IAG we are using our core business principle of risk management and risk reduction to create social value for the communities in which we operate.

Shared value is something we've been practising almost unconsciously for many years – through research, education, and working with communities on risk reduction.

Now though, we've consciously put it at the centre of our business strategy, with an imperative to actively seek opportunities to build value for our customers and the community, at the same time as we create value for our business and our shareholders.

THE ROLE OF INSURANCE

First, though, I'd like to tell you a little about how I think the insurance industry fits into a shared value model.

In many ways, the insurance industry is uniquely placed to drive shared value. You get into insurance because you want to help people, which isn't a bad start on the shared value road.

The industry supports individuals 365 days a year by providing peace of mind and protection from the financial impact of a range of risks, from car theft to home burglary to injury at work – this is our place at the starting line.

And insurers play a crucial role in supporting communities when risk becomes reality, particularly following a natural disaster. By fulfilling this role, we provide a private sector solution to what might otherwise be a national crisis.

By doing this we earn enough customer trust to allow us to continue to operate.

But trust is important for more than just reputation – community involvement is a cornerstone in any shared value proposition. And for the community to be willing to be involved, they need to see genuine commitment from the businesses seeking their buy-in.

In this context, the role of insurers in reducing risk goes beyond simple risk transfer – we’ve come a long way since the days when insurers owned fire brigades and would only douse fires in homes belonging to their customers.

As well as helping communities recover from events, we have an important role in minimising the impact of similar events in the future. We recognise that business profits from solving social problems, and that our business will benefit from reducing risk across a range of areas, from natural disaster mitigation to road safety and everything in between.

HOW IAG IS RESPONDING

To do this, we leverage one of the insurance industry’s greatest assets – our deep knowledge and understanding of risk.

In this, IAG has an advantage – we are the only Australian insurer to operate its own research facility – our Industry Research Centre.

The centre tests cars, motorcycles and building materials with a view to making them more robust, safer, and easier to repair.

But we don’t keep this information to ourselves – we share it with car manufacturers, to encourage and assist them in making safer cars, and building materials manufacturers.

And we back it up with a price signal, offering premium discounts for cars with certain features.

Last month, for example, we announced we would give premium discounts for cars with automatic emergency braking technology. This is relatively inexpensive collision-avoidance technology which uses laser, radar or camera technology to automatically apply the brakes to prevent a crash.

Of course, encouraging technology that lowers the risk of collisions is good for us but it's also good for the community.

We're also the only insurance member of the Australian New Car Assessment Program (ANCAP) which, through its rating system, gives consumers information on the level of safety and protection offered by cars they're thinking of buying and, influences the safety features offered by manufacturers.

That contributes to lowering the risk on the roads. Last year, road fatality figures for New South Wales and Victoria were the lowest they have been since 1924, despite the fact that there are many, many times more vehicles on the road now.

A lot of factors have contributed to that – compulsory seat-belts, random breath testing, safer roads, better vehicle design. And, in its own way, I believe the testing carried out by our research centre has played a part.

Of course, the road toll is still too high, much too high. But its reduction means a significant saving of lives and trauma. And it can improve more.

As well as providing information, we also support communities to reduce their level of risk.

One way in which we do this is through the Community Grants offered by our brands, which support local initiatives that make communities safer on the road, at home and at work. This is a good example of shared value, because it demonstrates how we've aligned our community spending with our focus on risk reduction.

THE IMPACT OF NATURAL DISASTERS

Natural disasters are among the biggest challenges for our business, and they are also an area of focus in our shared value strategy.

Australia is in the cross-hairs when it comes to natural disasters. We live in one of the world's most disaster-prone regions, and the frequency and severity of those disasters is increasing.

The total economic cost of natural disasters in Australia averages about \$6.3 billion annually.

But of course there are good years and not so good years – and one of the worst was 2011.

In that year, we saw an unprecedented series of floods, cyclones and storms in Australia and the worst disaster on record in New Zealand with

the Canterbury earthquake. In that year IAG's businesses received over 150,000 claims related to natural hazards over a 12-month period.

There was huge financial cost as well. In Queensland alone, insured losses from catastrophes in 2011 were around \$5 billion while the Australian and Queensland Governments incurred over \$7.5 billion in reconstruction and recovery costs.

In New Zealand, the total cost of the Canterbury earthquakes of 2010 and 2011 has been estimated at more than NZ\$40 billion. The earthquake of February 2011 was the world's third largest insured disaster.

Recently IAG has been very public in its comments on natural disasters and disaster resilience. These started as a business imperative – the impact of natural disasters and the related issue of insurance affordability. Quite simply, safer communities mean fewer claims; fewer claims mean we can keep premiums low, which leads to greater insurance penetration, which means more people and communities are protected.

I also have a personal impetus for being involved in helping communities become more resilient to natural disasters. A few of you may have heard me talk about this before because it's something that made a lasting impression on me.

I will never forget the 2009 Black Saturday bushfires in Victoria. I was able to visit the areas shortly after the fires were brought under control. I remember standing on a street in the town of Kinglake. On one street all

the houses had been totally destroyed. The only things left by the fire were Hills Hoists and metal letterboxes.

The police had been through the street; they were searching for bodies. As they did this they put blue-and-white tape police-tape on the letter-boxes to indicate the homes where nobody had died and red-and-white tape where lives had been lost. Standing on one section of the street and looking down it, I saw red-and-white tape on every letter box. People had perished in the fire in every single house.

That really brought home to me the terrible nature of natural disasters and the need to do everything we can to help people stay protected and safe.

At IAG we started to speak out about that. It's critical that we learn from these events and use what we have learned to reduce risk and make our communities safer.

RESPONDING TO DISASTERS – BEFORE AND AFTER THEY OCCUR

So it won't come as a surprise that a lot of our efforts are focused on natural disaster mitigation.

And here, we work directly with affected communities.

For example, we work with local governments, such as the Rockhampton Regional Council, to help them on the benefits and costs - including the insurance impact – of investing in flood mitigation infrastructure.

Through NRMA Insurance, we partner with the State Emergency Service in NSW, Queensland and the ACT. Together, we run programs aimed at helping communities equip themselves and their neighbours to reduce the impact of adverse weather.

Far North Queensland is topical in insurance. Because of events, cyclones in particular, it's difficult to get strata insurance. Our view is that it doesn't benefit anyone to have body corporates priced out of the strata insurance market. Yet as a responsible business, we have to operate in a financially sustainable way by charging premiums which are appropriate to the level of risk.

Insurance premiums are a risk signal. So charging unsustainably low premiums wasn't an option, but neither was leaving a gaping insurance gap in the region.

To address the issue, CGU is funding building risk assessments, and revisits its pricing where work is carried out to make buildings safer, with a view to reducing premiums where possible.

In post-earthquake New Zealand, IAG has repaired or rebuilt customers' homes in accordance with new planning provisions for more resilient homes. It would have been easier to just make cash settlements but our focus is on building stronger, safer more resilient homes to give our customers greater confidence in the future. We feel our responsibility is not just to make settlement but to help rebuild a city.

Addressing risk after the event, however, is only part of the picture.

We believe more investment is needed in mitigating natural disaster risk before it happens, to reduce the impact of disasters when they inevitably occur.

We also believe the funding formula for natural disaster spending needs to be turned upside down - the Australian Government invests about \$50 million each year in mitigation measures but it spends on average more than \$560 million on post loss recovery. For every \$10 spent on post-disaster recovery, only \$1 is spent on pre-disaster mitigation. That's the wrong way round.

We recognised that to achieve a more disaster resilient Australia, we needed to take a shared approach. We needed a collaborative effort bringing in the broader business community, government, humanitarian organisations and the wider community.

As a result we formed the *Australian Business Roundtable for Disaster Resilience and Safer Communities*. Its aim is to influence public policy to shift the emphasis from relief and recovery to preventative measures.

Other members of the Roundtable are the Australian Red Cross, Investa Property Group, Munich Re, Optus and Westpac. Each of these organisations has seen first-hand how natural disasters can devastate

whole communities, disrupt local and business networks and cause significant injury and loss of life.

The Roundtable is the first time such organisations in Australia have come together to focus on this issue. I know from our contact with the United Nations Office for Disaster Risk Reduction that it's seen as a leading global program by the UN.

The focus of the Roundtable has been unashamedly and squarely on influencing the outcome in Canberra – making the case for mitigation investment to reduce the impact of bushfires, floods and cyclones.

And our figures are compelling. Reports commissioned by the Roundtable show that an annual investment of \$250 million in resilience infrastructure, plus effective management of data and research, could deliver savings to the Australian economy of up to \$14.6 billion by 2050. Creating value is at the heart of the shared value approach and here the potential economic value is clear.

Partly in response to the work of the Roundtable, the Government established a *Productivity Commission Inquiry into Natural Disaster Funding Arrangements*. The Inquiry has received 113 submissions and is due to publish its interim report later this month.

We see this Inquiry as a once-in-a-generation opportunity to change the approach so we can reduce the cost of natural disasters and, save lives and property.

THE POWER OF COLLABORATION

As I've mentioned, the concept of shared value requires a range of organisations and interests to pull together towards a common good.

That's a natural fit for us. Our insurance business model is built on partnership.

In our commercial business, that expresses itself through our relationships with brokers and our other partners.

In our personal insurance business, we partner with a range of institutions and a broad supply chain which helps us meet customer needs.

And our Asian strategy is based on building sustainable business through joint ventures and capability transfer.

So we definitely understand the value of collaboration.

And in the context of disaster mitigation, that collaboration is critical to achieving the Roundtable's objectives.

This isn't only because it allows us to tap into the expertise of a wide range of organisations with great expertise and strong community networks – although of course that's central.

But it's also important as it demonstrates to Government and other stakeholders that the Roundtable is a true shared value proposition - something beyond narrow sectoral self-interest. That's what gives it traction.

CONCLUSION

I'd like to end by restating what shared value means, at least from my perspective.

As I've said, creating economic value which also creates social value is central to the shared value concept.

Powerful ideas get their power from the fact that they have broad relevance. In the case of the Roundtable, a key aspect of our shared value strategy, protecting communities has huge relevance in a country that's prone to natural disasters.

But it's not altruism. Nor is it spin, philanthropy or a zero-sum game with winners and losers.

There is certainly a benefit for IAG in reducing the risks faced by our customers at home, on the road and when a storm hits. There's also a reputation benefit in understanding that society demands more than a profit and loss focus from the business community.

So if shared value is neither philanthropy nor self-interest, what is it?

To me, it's more powerful than either. It's a recognition that we are part of a society, not just an economy.

And it's an ability to lead and influence other organisations and interests to courses of action which create economic and social value for the community – and which benefit us as part of that community.

I'd like to reiterate a point I made earlier – societal expectations of business are changing.

The storm warning to business is this – if we are to survive, prosper, and remain meaningful, we need to heed these expectations by working to enrich our communities, instead of simply expecting them to enrich us.

In the words of Oprah Winfrey: "Life is a reciprocal exchange. To move forward, you've got to give back."