

Sustainability Beyond Policies

Keynote Presentation:

Dr. Keith Nurse

**President, College of Science Technology and Applied Arts
Trinidad and Tobago**

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Introduction

Ladies and Gentlemen,

I'm deeply honoured to address the esteemed members of the Insurance Association of the Caribbean today at the 42nd annual Caribbean Insurance Conference. I have been asked by the organizers to address the topic of "Sustainability Beyond Policies." While this title provides a wide swathe I think we can all agree that the organizers are pointing to a truth that's becoming increasingly undeniable: the profound impact of sustainability issues on our region and particularly on the insurance industry operating in Small Island Developing States (SIDS).

Indeed, one of the key messages I would like to convey is that the region needs a healthy and growing insurance industry to make the transition to a sustainable, resilient, low-carbon economy. In this regard, I would like to argue that policies are the handmaiden of strategy and generally speaking the Caribbean is good at crafting policies but fairly weak on strategy and its implementation. This is what I call the implementation deficit disorder. It is largely a problem of weak governance in the arena of innovation, especially social innovation, which is increasingly needed to address the evolving threat of climate change and the related cascading fragilities.¹

So, as we convene in this fabulous setting on the Caribbean Sea I wish to invite you to join me in an exploratory journey where I will delve into the requirements for transformational thinking, strategic action and implementation. We all know that innovation is a strategic imperative for survival and growth in today's rapidly evolving landscape. The question is how do we get there.

Nowhere is the demand for transformation more urgent than in Small Island Developing States like the Caribbean region which are faced with multiple crises such as reduced global economic competitiveness, debt overhangs, the rising incidence of chronic non-communicable diseases, demographic decline (i.e. ageing populations and high emigration rates), human security threats (criminality, drugs and gangs) and climate change impacts (e.g. vulnerabilities to hurricanes and sea level rise).² These challenges and more have a major impact on the insurance sector, thus the traditional paradigms of risk assessment and mitigation are being reshaped if not upended by

¹ See Keith Nurse, *Climate change, structural economic transformation and innovation governance in Small Island Developing States*. ODI Development Blog 07 December 2023. <https://odi.org/en/insights/climate-change-structural-economic-transformation-and-innovation-governance-in-small-island-developing-states/>

² For an analysis of the imperatives of climate action in the Caribbean see: Keith Nurse and Danielle Edwards, *Climate Impact and Action: The Travel and Tourism Industry in the Caribbean and Small Island Developing States*. Sustainable Futures Policy Brief, Issue 3, January 2019. https://uwi.edu/salises-mona/sites/salises-mona/files/Policy%20Brief%20PDF/SALISES-PolicyBriefJan2019-Issue3_0.pdf.

the shifts in the socio-economic and environmental context along with technological advancements and changing consumer expectations.

In my presentation I will aim to do three things: Firstly, give some perspective on the Post COVID context. Second, I will examine some of the burning issues in the sustainability agenda for the insurance industry. And finally I will give my take on four key strategic action areas.

Setting the Context Post COVID

This is my second time engaging with you as I was one of your feature speakers in 2021 during the pandemic. Of course, the conference was a virtual affair. Back then the title of my presentation was COVID-19 Impacts and Prospects for the Caribbean in which I highlighted the emergent challenges of the economic downturn caused by COVID-19 and the potential adverse effects on premium growth for the insurance sector. Based on available data it is estimated that gross written premiums declined by approximately six percent in 2020 with a commensurate drop in average written insurance per capita.³ Thankfully the industry has had a rebound in tandem with the regional economic upturn but uneasiness remains.

I spoke also about the new strategic opportunities that were brought on by COVID-19: The first is that Public Health has been pushed higher up the public policy agenda. One can argue that there is still much more that we can do with the potential proliferation of emergent diseases and the long-term trajectory of CNCDs. For instance, what we know is that “the Caribbean region faces the highest burden from CNCDs for developing nations in the Americas, and chronic CNCDs are the leading cause of death. NCDs are linked to more than 70% of deaths in the region”.⁴ This is in keeping with the epidemiological transitions in middle-income countries like the ageing population but it also speaks to issues of diet, nutrition and lifestyles.

Nonetheless, in the wake of the COVID-19 pandemic, there is a heightened focus on life and health insurance, and an increasing demand for innovative products addressing areas of risk mitigation and improved disaster preparedness.

The second key takeaway was the importance of disaster risk reduction as building resilience is more cost-effective than recovery. The regional insurance industry has become painfully aware of this with the rising cost of reinsurance. With reinsurance accounting for a large share of operating expenditure it is indeed one of the troubling factors linked to the issue of sustainability as well as business continuity.⁵ I am sure

³ Data sourced from: <https://www.statista.com/outlook/fmo/insurances/caribbean>

⁴ See research paper: <https://www3.paho.org/ods3/wp-content/uploads/2021/05/v43e372019.pdf>

⁵ See for further details: <https://www.reinsurancene.ws/caribbean-insurers-face-profit-pressure-due-to-challenging-reinsurance-renewals-am-best/>

this is an issue that keeps many of you up at night but it is clear that the industry is being hugely impacted by climate change and that it must manage its risks and the derisking strategies of the reinsurers more innovatively.

Another issue was how Digitalization had been accelerated and had transformed every major industrial sector with enhanced connectivity and new business models. This year's theme at CIC is Beyond Policies: Insurance in the Digital Age couldn't be more timely or critical. Digitalization is revolutionizing how the insurance industry assesses and manages risk. From satellite imagery and drones for property inspections to advanced data analytics and AI-driven modelling for predictive risk assessment, the possibilities are endless. By harnessing digital technologies, insurers can gain deeper insights into risk exposure, enhance underwriting accuracy, and develop more tailored and responsive products for their clients.

However, the key issue here is where will the Caribbean insurance industry land in the unfolding disruption processes unleashed by new tech. As one of my good friends keeps reminding me: we have two options: wait to be disrupted or disrupt yourself!

As such, how is the industry responding to the rapid rise of Insurtech which is transforming the insurance landscape, offering innovative solutions to age-old challenges as well as burgeoning opportunities. Whether it's peer-to-peer insurance platforms, blockchain-enabled smart contracts, or on-demand microinsurance services, Insurtechs are reshaping the way insurance is bought, sold, and managed. By embracing these disruptive innovations, traditional insurers can enhance operational efficiency, expand market reach, and deliver greater value to their customers.

You, the audience, are more familiar with these issues and their implications because you live this reality every day. I am just an infrequent interloper taking a small peep into your goings-on. In my country, Trinidad and Tobago, we call this "Macoing". And we have lots of Calypsos and Soca songs that give testimony to the importance of this activity. Think of Soca artist Patrice Roberts and her famous song "Drink Water and Mind Yuh Business".

Understanding the Sustainability Stakes

Often the image associated with the Caribbean and SIDS is warm crystal-clear waters, pristine beaches, and palm trees swaying in the wind. But beneath this idyllic facade lies a sobering reality. Our seas are getting warmer and the coral reefs are bleaching; the beaches are increasingly subjected to erosion due to rising sea levels and storm surges; and the winds during a hurricane can endanger lives and livelihoods. Climate change isn't just a distant threat; it's here, battering down our doors, and the insurance industry stands at the forefront of its repercussions.

For Small Island Developing States, the challenges posed by climate change are particularly acute. Limited resources, fragile ecosystems, and densely populated coastal areas magnify the impact of extreme weather events and exacerbate the vulnerability of communities.

Traditionally, the role of insurers has been to mitigate risk through policies and premiums. But in the face of climate change I would like to argue that the mandate for the insurance industry should extend beyond risk transfer. In effect, I am suggesting that the insurance sector must play an enlarged and proactive role and become agents of change, catalysts for resilience and champions of sustainability. The following trends signal a sea change:

- The insurance market in the Caribbean is experiencing a surge in demand for hurricane and natural disaster coverage.
- Environmental, Social, and Governance (ESG) factors are gaining prominence in the insurance landscape. Insurers are integrating sustainability principles into their underwriting and investment strategies, aligning with the broader societal move toward responsible and environmentally conscious practices.
- Natural disasters and large-scale events, including pandemics, can result in substantial insurance claims, significantly affecting the industry's financial stability. Continuously monitoring these events and their frequency is essential for risk assessment and pricing strategies.⁶

Embracing Sustainability

Sustainability is a guiding principle for our industry's future. Beyond simply underwriting policies, we must adopt a holistic approach that integrates sustainability into every facet of our operations, underwriting and investment.

Climate change trajectories signal that the 'cost of inaction' is high when it comes to adaptation and that SIDS need to move with greater urgency on climate action and reinvent their economies. This calls for a more strategic embrace of sustainable development goals and a commitment to pursue innovation governance. Indeed, there are opportunities for SIDS to utilize the United Nations (UN) Sustainable Development Goal (SDG) agenda as a driver for economic transformation considering the possibilities of restructuring current production and consumption modes.

This is no mean task! Achieving many of the targets associated with climate action will require not just technological solutions but broad changes in institutional arrangements and even lifestyles. Innovation governance in climate-friendly

⁶ For further details see: <https://www.statista.com/outlook/fmo/insurances/caribbean#analyst-opinion>

technologies, particularly those that supply and distribute renewable forms of energy, are generally faced with structural forms of resistance. This is so because often the short-term costs of transition are high relative to the benefits and as such the old techno-economic paradigms can only be replaced once the necessary institutional changes (government regulation, organizational changes, changes in people's life-style habits, etc.) have been embedded. For instance, it is argued that "the prevailing trajectories are dominant because unlike their cleaner alternative, they have benefitted from 'dynamic scale and learning effects' and because the 'selection environment' is adapted to the old regime."⁷

In effect, what is being called for are mechanisms to do what British-Venezuelan scholar, Carlota Perez, describes as "tilting the market" with the aim of installing a preferred future based on smart, green and fair policies and mechanism for development.⁸ It is a matter of creating an incentive structures that addresses the twin problem of market failure and government failure.

This suggests that the problem or solution is not just a matter of financing even though it is widely recognized that most SIDS lack the financial resources needed to make the shift towards a low-carbon economy. However, the key point being made here is that SIDS also require increased facilitation through the transfer of clean energy and climate technologies. It is also propitious for SIDS to invest in their own research and development and technology adoption and diffusion which would facilitate more rapid adaptation responses. This position was advocated by the Alliance of Small Island States (AOSIS) when it called for relevant linkages to be made between science and climate change in order to empower SIDS to design and implement policies appropriately.⁹

In summary, the argument is that moving beyond policies to a focus on strategic action can generate significant upsides as well as address major challenges. For example, it is argued that:

smart action against climate change doesn't only stop bad things happening, it leads to increased efficiency, drives new technology, and lowers risk. These benefits in

⁷ Kemp Rene and Luc Soete (1992) "The Greening of Technological Progress: An Evolutionary Perspective." *Futures* June, 438.

⁸ For further details see: <https://unctad.org/news/blog-its-time-smart-green-fair-and-global-golden-age-information-society>

⁹ Overview Address By H.E. Ambassador Tuiloma Neroni Slade, Permanent Representative of Samoa to the United Nations, Chairman of the Alliance of Small Island States (AOSIS). Statement at the Pacific Islands Climate Change Conference, Rarotonga, Cook Islands, 3-7 April 2000, entitled "Linking Science And Climate Change Policy." Available at: www.sidsnet.org/aosis/statements/08.html.

turn stimulate investment, generating jobs, creating healthier economies, and boosting the livelihoods and well-being of citizens, even in the near term.¹⁰

As I conclude my presentation I would like to leave you with four key ideas or value propositions:

1. Risk Assessment and Mitigation

First and foremost, we must refine our risk assessment methodologies to account for the evolving threat landscape. By harnessing advanced analytics, remote sensing technologies, and climate modelling, we can better quantify and mitigate risks for our clients to promote financial wellness and inclusion. It is also critical that we create new risk based underwriting that are affordable and targets underserved and unserved markets. For example, how is the industry responding to the rise of the “silver economy” given the fast growing ageing population. And what about tapping into the Caribbean diasporic market by facilitating the portability of health insurance.

2. Product and Service Innovation

Innovation is the lifeblood of the insurance industry. We must pioneer new products, services and solutions that incentivize and reward sustainable practices. From parametric insurance for natural disasters to green or climate bonds that fund resilient infrastructure, the possibilities are expanding. This is where greater investment in Insurtech is increasingly demanded. These services involve new fintech solutions such as blockchain, artificial intelligence, digitalisation and the sharing economy. This profusion of technology brings with it the promise of various benefits including increasing efficiency and lowering costs for not only insurers and intermediaries, but also businesses or clients. On the flipside, the development of Insurtech solutions comes with corresponding risks and regulatory concerns not currently accounted for by the traditional regulatory model.

3. Collaboration and Partnerships

No single entity can tackle the climate crisis alone. The insurance industry must forge partnerships with governments, NGOs, academia, and local communities to co-create holistic solutions that build resilience from the ground up. As one author puts it “As risks grows, insurance markets are contracting to protect solvency”. Some analysts talk about embedding co-opetition approaches where stakeholders are competing and collaborating at the same time. This is the counter to the “race to the bottom” mentality.

¹⁰ Kelly Levin and Andrew Steer. “Fighting Climate Change with Innovation”, *Finance and Development*, September 2021. <https://www.imf.org/en/Publications/fandd/issues/2021/09/bezos-earth-fund-climate-change-innovation-levin>

4. Education and Awareness

Knowledge is power! We must invest in education, research and awareness campaigns that empower individuals and businesses to understand and mitigate their exposure to climate risk. It is imperative that we train the next cadre of changemakers in the industry so that they are well-equipped to anticipate change and develop proactive responses. As it now stands we are faced with a steep hill to climb. What are needed are incubators and accelerators to catapult innovative thinking and astute investment into the new cutting edge areas. From this perspective I am calling on the insurance industry to join with Higher Education Institutions to build such capacities among a range of early stage and start-up firms and entrepreneurs. This collaboration may well be able to aid in the further diversification of the established firms by building stronger intrapreneurial capabilities.

Conclusion: Charting a Course for a Sustainable Future

In closing, let me leave you with this thought: the challenges we face are daunting, but so too are the opportunities. The insurance industry in the Caribbean is one of the largest service sectors and it plays a critical role in managing risks and facilitating the pivot to a sustainable future in the region. Indeed, one can argue that sustainability cannot be achieved without an active and enlarged role of the insurance industry. From this standpoint the insurance industry has the moral imperative to drive meaningful change and the capacity to marshal the required expertise and resources.

The theme of this year's keynote address at the Caribbean Insurance Conference speaks to the necessity of embracing sustainability beyond policies. In doing so the insurance can secure the bottom line by safeguarding the future of our region and the prosperity of generations to come.

Together, let us chart a course towards a future where sustainability isn't just a goal to aspire to, but a reality that is implemented.

Thank you for your kind attention,
Dr. Keith Nurse