



INSURANCE AND SUSTAINABILITY: A NATURAL FIT

Background

The Co-operators is a Canadian-owned, multi-product insurance and financial services organization with more than \$36 billion in assets under administration. It insures more than 844,000 homes, 1.2 million vehicles, 767,000 lives, and provides coverage to 38,000 farms, 131,000 businesses and provides travel insurance to over one million Canadians and visitors to Canada. Headquartered in Guelph, Ontario, The Co-operators is owned by 45 Canadian members including co-operatives and credit union centrals.

Since its founding in 1945, the organization has always held strong social and community values that have supported its ongoing success. The organization operates with co-operative principles at the root of its governance structure, business practices, and human resource management.

The business of insurance resides in the transfer and mitigation of risk, and profits through accurate pricing of policies and investment funds. Based on the increasing claims and evolving understanding of the risks associated with climate change, The Co-operators began to re-examine its role as an insurer.

A Sustainability Journey Begins

In 2005, The Co-operators President and CEO Kathy Bardswick heard Dr. Karl-Henrik Robèrt, founder of The Natural Step (TNS), speak at the International Cooperative and Mutual Insurance Federation (ICMIF) Annual General Meeting in Singapore. Inspired by his work, Bardswick and her senior management team explored how The Co-operators might chart a course toward sustainability. Dr. Robèrt was subsequently invited to speak at The Co-operators Annual General Meeting in 2006, and shortly thereafter The Natural Step Canada was invited to consult with the organization on integrating sustainability into the company's strategic plans.

Pursuing sustainability as a business strategy was a natural course of action for The Co-operators for a variety of reasons. In its role as a co-operative, the company aims to contribute to a healthy and equitable society, holds "patient capital" and a longer-term perspective. In its role as an insurer, it clearly recognized the physical and social challenges associated with the unsustainability of human society. Finally, The Co-operators had strong staff engagement and a genuine commitment to be part of solutions to society's greatest challenges.

With the guidance of The Natural Step, The Co-operators reflected on three strategic questions to determine how to begin:

- i. How do we define sustainability as an organization?
- ii. Where do we currently stand relative to that definition?
- iii. What will we do to bridge the gap?

The Co-operators

The Co-operators recognized the need to deeply embed sustainability throughout the organization and updated its corporate vision and values to reflect their emerging intentions. A revised corporate vision statement, together with an updated statement of values and the development of a Sustainability Policy, was adopted and approved by the Board of Directors in June 2007. The Board of Directors also formed an ad hoc Sustainability Committee to help guide the integration of sustainability plans into the overall governance and strategy of The Co-operators. A Sustainability Steering Committee made up of Vice Presidents from across the group of companies was created to implement and oversee the strategy. Shortly thereafter, The Natural Step Canada and Strandberg Consulting assisted the organization in developing its first sustainability strategy. The development of the strategy included an analysis of The Co-operators operations, products and services and stakeholder relationships through the lens of sustainability principles.



Dr. Karl-Henrik Robèrt, founder of The Natural Step, and Barbara Turley-McIntyre, Director, Sustainability & Corporate Citizenship, The Co-operators in Toronto in 2010.

“The Co-operators recognizes that our business, our communities, and the whole global economy exist within the closed system of the earth...”

“Step by step, The Co-operators will strive to align our business operations, products and services, and stakeholder relationships with these fundamental sustainability principles in ways that advance our long-term financial objectives.”

Excerpts from The Co-operators Sustainability Policy

Phase 1 (2008 – 2010): “Getting our house in order”

The Co-operators immediately saw the value of sustainability in terms of staff engagement, innovation, and reputation, but experienced a steep learning curve in their awareness of the scope and breadth of sustainability issues. However, advancing their first sustainability strategy, The Co-operators achieved a number of significant milestones that represent great strides in the early stages of their sustainability journey.

Staff members expressed strong interest in sustainability and were drawing connections between sustainability-related actions taken at home and actions taken in the workplace. This type of commitment to sustainability from the top-down and from the bottom-up has resulted in a “perfect storm of engagement”, according to President & CEO Kathy Bardswick.

The Co-operators

The Co-operators established a baseline for its carbon footprint and developed a greenhouse gas emissions management system, which has been followed rigorously with actions to reduce carbon emissions. Additionally, the company developed an overarching climate change strategy and built upon internal greenhouse gas emissions efforts, including strategic approaches to address climate change through product development, stakeholder partnerships, public advocacy and procurement. The Co-operators set the goal of reducing its emissions by 10% from 2007 levels by 2010. The organization addressed many of its most significant operational impacts, including heating, ventilation, air conditioning and electricity consumption in its offices and facilities, transportation and paper use.

A crucial sustainability endeavour was to create a Sustainable Purchasing Policy and Supplier Code of Conduct in 2009 to guide purchasing decisions and influence the supply chain. This was an early acknowledgement of The Co-operators impact “beyond the four walls” of its own operations, and a clear and compelling way to address that impact. As of late 2011, 34 of 38 identified strategic suppliers had committed to the Supplier Code of Conduct.

While the early focus of the first strategy was on internal operations and governance, other initiatives that affected The Co-operators external relationships were also undertaken.

A suite of sustainability insurance products was developed, including a discount program for hybrid vehicles, EnviroGuard™, an endorsement to repair and replace home losses with more sustainable materials, and Windsurance™, a comprehensive package of insurance policies tailored to various stages of building a wind farm.

The Co-operators also began to more deliberately align and leverage its stakeholder relationships with its sustainability mandate. For example, the organization’s corporate giving vehicles, including the Community Economic Development Fund, Co-operative Development Program, and Corporate Giving Program were aligned more closely with the organization’s sustainability objectives.

A signature stakeholder engagement sustainability initiative was launched called IMPACT! The Co-operators Youth Program for Sustainability Leadership. The program was launched with a conference in 2009 that brought together over 180 youth from across the country to enhance their leadership skills, deepen their sustainability competencies, and create a network of inspired and passionate change agents. In addition, an IMPACT! fund was created to offer financial assistance to compelling and promising projects that emerged from IMPACT! alumni.

“Now that we have begun to get ‘our house in order’, the task seems even bigger. We now know what we don’t know, and we realize how much more there is to be done.”

Barbara Turley-McIntyre
Director, Sustainability & Corporate Citizenship
The Co-operators Group Limited



Dr. David Suzuki speaks with students following his keynote address at the IMPACT! The Co-operators Youth Program for Sustainability Leadership 2009 conference.

Phase 2 (2011 – 2014): Becoming A Catalyst for a Sustainable Society

With a sound understanding of its own sustainability challenges and a baseline against which to evaluate, The Co-operators turned its attention outward to consider how it can become a catalyst for a sustainable society, as stated in its corporate vision. The first step in this process was articulating what it meant for The Co-operators to be a catalyst for a sustainable society. This eventually took the form of a sustainability vision, which articulates in six areas of focus how The Co-operators aspires to be a catalyst. With the assistance of The Natural Step and Strandberg Consulting, The Co-operators developed a 2011-2014 Sustainability Strategy that was structured around six areas: Our People, Our Clients, Our Governance & Operations, Our Investments, Our Relationships, and Our Public Voice.



We will be a catalyst for a sustainable society.

“As an insurer, an employer, investor, community partner and a co-operative, The Co-operators believes that it can and must play a leadership role in ensuring a sustainable future.”

- Kathy Bardswick,
President and CEO,
The Co-operators

Our People

We attract and develop personal champions of sustainability through our dynamic, progressive workplace.

Our Clients

We enable and encourage our clients to contribute to a sustainable future through our products and services.

Our Governance and Operations

We model responsible, accountable and transparent governance. Our operations help foster a more sustainable society and economy and are a source of pride for our people. Others seek to follow our example.

Our Investments

We are responsible investors and build on our assets to contribute to a more sustainable future.

Our Public Voice

We are strong and effective public advocates for sustainability and inspire others to take action.

Our Relationships

We are advancing sustainability through collaboration with industry partners, the co-operative sector, business partners, communities, governments and non-governmental organizations (NGOs).

Each focus area in the strategy includes a description of the successful outcome. The focus areas also have clear strategic priorities, four-year goals, Key Performance Indicators (KPIs) with four-year targets, and identifies the department(s) accountable. This strategy is an example of the strategic process of “backcasting” that is fundamental to The Natural Step’s approach and is built into The Co-operators Sustainability Policy.

With a robust strategy in place, The Co-operators has made strides toward the achievement of its vision in each of the six focus areas. Below is a sample of initiatives underway in each focus area to achieve business goals while facilitating change toward sustainability.

Our People

“We attract and develop personal champions of sustainability through our dynamic, progressive workplace.”

The Co-operators has recognized that for its sustainability efforts to be successful a strong commitment from staff will continually be required. Training and education continue to be an important channel for building employee engagement, with a customized version of The Natural Step’s Sustainability 101 eLearning course as a key component. In addition, The Co-operators Sustainability Race, developed in partnership with the David Suzuki Foundation, encouraged employees to take action in their personal and work lives on sustainability aspects of food, transportation, water and energy.

As a result of these and many other initiatives, 94% of staff members believe The Co-operators group of companies is a socially and environmentally responsible organization. In addition, 86% responded that their personal values are very similar to those of the organization. A strong effort will be made in the coming years to engage the Insurance/ Financial Advisor sales force in sustainability as customer-facing representatives in order to increase the uptake of The Co-operators sustainability-focused products and continue building the organization’s public voice as a sustainability catalyst.

A strong commitment to sustainability has not only required staff commitment, but has also in turn increased the commitment of staff members to The Co-operators. The organizational culture encourages experimentation, and gives permission to make mistakes and challenge the status quo. This combination is contributing strongly to The Co-operators ability to attract “the best of the best”, who will be sustainability champions at home, at work, and in the community.

Our Clients

“We enable and encourage our clients to contribute to a sustainable future through our products and services.”

To understand how the organization can influence the decision-making and behaviour of its clients, The Co-operators enlisted The Natural Step in 2011 to develop a Product Assessment Tool to evaluate the sustainability impacts of its insurance products. All of The Co-operators home and auto insurance products will

be evaluated with this tool by the end of 2012 in an effort to identify improvements to sustainability performance. Additionally, in 2012 approximately 15 staff members at The Co-operators will be trained on how to use the tool for both product assessment and product development. This tool has already raised the level of sustainability awareness in the organization, and has potential to inform the way that The Co-operators underwrites risk, develops insurance products, and repairs, replaces, and disposes of items throughout the claims process.

“The Product Assessment Tool is helping us understand the levers that affect the sustainability score of our products, which in many cases are different than what we originally thought.”

Paul Mlodzik

**Vice President, Marketing & Communications
The Co-operators Group Limited**

One of the most crucial ways that an insurer can support the emergence of sustainable technologies, services, and systems is through its underwriting. Typically, the insurance business has based its risk assessment for underwriting on past trends and performance. Sovereign General, one of The Co-operators subsidiaries, has recognized a need to adjust its criteria for tolerance to volatility in order to support the development of products that have positive sustainability impacts. While being very strategic about the amount risk that the organization is willing to assume, Sovereign General expects to secure a significant share of the underwriting market for emerging technologies in the sustainability space.

“The Co-operators has a meaningful opportunity to shape the behaviour of its clients and support change toward sustainability.”

**Rob Wesseling
Chief Operating Officer,
Sovereign General Insurance Company**

Claims are another major opportunity for leverage and a touch-point with clients. Many adjustments to The Co-operators claims protocols have resulted in substantial reductions to the organization's operational footprint. The introduction of an electronic claims management system has seen the percentage of paperless claims increase from zero in 2007 to 60% in 2011. In the same timeframe, the percentage of audits conducted remotely has moved from zero to 50%, the claims fleet has been reduced by 61%, the number of kilometres travelled for claims has been reduced by 32%, and the number of claims offices has been reduced by 19%, to 56 across Canada. Going forward, expanding the use of remote digital photography is expected to further reduce the need for on-site assessments, particularly for minor claims. With approximately \$1 billion spent on claims each year, there are massive cost savings and greenhouse gas emissions reductions to be realized through these efforts.

The Co-operators evaluates automobile claims vendors, in part, according to whether their collision repair practices are responsible from a sustainability perspective, ranking the top ten per cent in this area as preferred "green vendors" and recommending them to clients as such. This in turn encourages all automobile claims vendors to consider the sustainability impacts of their operations. In 2011, 15.2% of all repairable vehicles were repaired at preferred green collision repair facilities compared to 8.6% in 2010. Second quarter 2012 results were even stronger, with 23.5% of collision repairs nationally being performed by green vendors.

The Co-operators continues to encourage environmentally preferable repair practices such as paintless dent repair, which eliminates the need for sanding, grinding, and the use of chemicals and painting to hail damage. Through its Property claims, The Co-operators continues to support the Esporta system for cleaning, disinfecting and reusing damaged soft contents instead of directing them to landfill and replacing them with new products. The Co-operators claims group has set a goal to identify one significant new sustainable claims practice each year. Because clients are ultimately responsible to decide who will repair their property, it will be vital to educate claims staff and clients about the impact of their decisions and encourage less impactful and wasteful choices.

Our Governance & Operations

"We model responsible, accountable and transparent governance. Our operations help foster a more sustainable society and economy and are a source of pride for our people. Others seek to follow our example."

Strong governance continues to be an integral part of The Co-operators efforts to fully embed sustainability throughout the organization, in its policies, procedures, operations and culture. For example, a recent scan of sustainability governance best practices revealed 50 leading practices that have been formalized as a Sustainability Governance & Management framework. With genuine commitment from the Board and executive, there is a clear and consistent message that sustainability is critical to the organization.

"The Co-operators has made sustainability a priority at the highest level, giving everyone throughout the organization the authority to bring sustainability to life."

**Daniel Burns, Chairperson,
Board of Directors Sustainability Committee
The Co-operators Group Limited**

Operationally, The Co-operators has created a Greenhouse Gas (GHG) inventory in accordance with the GHG Protocol in order to track its progress against newly established, ambitious goals of reducing GHG emissions by 50% by 2014 and reaching net zero emissions for facilities and travel by 2020. A waste management protocol will be put in place by 2014, and The Co-operators continues with its successful battery recycling program that diverted 617 pounds of batteries from landfill in 2011 alone. Although water usage has been addressed in the company's employee engagement efforts, The Co-operators is now conducting a formal baseline assessment of the organization's water usage against which future progress can be measured.

The Co-operators

Our Investments

“We are responsible investors and build on our assets to contribute to a more sustainable future.”

In exploring the full spectrum of its behaviours and influence, The Co-operators has identified its investments as an opportunity to drive capital toward socially responsible organizations. In 2011, Addenda Capital, The Co-operators investment company, recruited an ESG specialist to integrate sustainability analysis into investment decisions and to develop a Socially Responsible Investment policy for the organization. In addition, The Co-operators has publicly stated its intent to become a signatory to the Principles for Responsible Investment Initiative in 2012.

Sustainability has also been integrated into internal investment decisions. The Co-operators Board of Directors approved the use of an internal carbon shadow price, which is related to the cost of carbon credits in the market, for the retrofit component of the GHG emissions reduction. The shadow price voluntarily assigns a value to emitting a tonne of carbon as it represents the cost of reducing or capturing one tonne of emissions. This allows The Co-operators finance department to more effectively evaluate the cost/benefit of its energy reducing retrofit initiatives. Accounting for an ‘externality’ such as carbon helps strengthen the business case for proceeding with environmentally sustainable decisions. The use of an internal carbon shadow price for decision-making is very new in Canada and is another way that The Co-operators displays its leadership in sustainability and corporate responsibility.

Our Public Voice

“We are strong and effective public advocates for sustainability and inspire others to take action.”

The focus of The Co-operators outward marketing messaging has evolved in recent years from “values” to “value” and now explores the connection between its co-operative values and value for its clients. This change in focus has paralleled the development of a suite of insurance products that reward and incent sustainable behaviours, including EnviroGuard™, a Hybrid Vehicle Discount, and EnviroWise™, a discount for LEED certified buildings. The Co-operators also developed a package of insurance and risk solutions for non-profit organizations called

Community Guard™, illustrating its commitment to the wellbeing of the communities where the organization operates.

Other products like insurance for solar and wind power projects, and socially responsible investments (SRI) have seen slow adoption to date but will be featured more prominently going forward.

The Co-operators has demonstrated its commitment to advocating for sustainability and community wellbeing through its focus on climate change mitigation and adaptation, healthy lifestyles, and fire safety. In 2011, The Co-operators coordinated and led The United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Sustainable Insurance North America Consultation Meeting. The Principles for Sustainable Insurance (PSI) were officially launched at the Rio+20 Summit in June 2012 with The Co-operators as the only Canadian property and casualty insurer founding signatory. The company also continues to support the work of the Institute for Catastrophic Loss Reduction (ICLR) in helping Canadians find ways to adapt to our changing climate.

The Co-operators and The Natural Step Canada partnered to publish “Sustainability At Home: Decision-making help for your everyday choices”, a toolkit to help Canadians adopt more sustainable lifestyles.



In 2011, The Co-operators partnered with The Natural Step to publish the “Sustainability at Home: Decision making help for your every day choices” toolkit to help Canadians lead more sustainable lifestyles. This guide was distributed through the company’s agencies across the country and was made available for download on both The Co-operators and The Natural Step’s websites.

The Co-operators

Email alerts are used to provide clients with tips for loss mitigation and loss prevention for their homes, autos, businesses, and farms. This type of communication is traditionally beyond the purview of an insurer, but is an effective way to share information that can reduce losses and claims.

Our Relationships

“We are advancing sustainability through collaboration with industry partners, the co-operative sector, business partners, communities, governments and non-governmental organizations (NGOs).”

The IMPACT! program has continued to evolve, with a second conference in 2011 with 165 new college and university student leaders from across the country gathering to generate and advance creative solutions for a more sustainable world. This time 12 alumni from the 2009 conference played a key role as facilitators and ambassadors of the program. The IMPACT! community now consists of more than 330 passionate and committed young change agents who are networked across the country to create and inspire change in their communities, campuses, workplaces, and homes. Based on feedback from the alumni for a more local element to the program, The Co-operators has partnered with The Natural Step to offer a series of IMPACT! Sustainability Champions Training in various cities across Canada in 2012 and 2013. These two-day sessions are designed to provide a framework for developing sustainability projects and build a regional network of youth sustainability leaders who are in turn connected to the national IMPACT! network. All alumni including participants in IMPACT! Sustainability Champions Training will be eligible to apply to the IMPACT! Fund for financial support for alumni-led projects that will advance sustainability in their communities and organizations. Between its inception in 2009 and the end of 2011, the Fund awarded more than \$168,000 to 27 projects.

The Co-operators continues to engage its stakeholders through its Community Advisory Panels that help to guide the development of its products and services, including the Community Guard™ solution for non-profit organizations. The Co-operators also continues the administration of its Service Review Panel, made up of client volunteers that provide a venue for clients to voice their concerns about claim settlements and help to reach fair resolutions.



Approximately 165 post-secondary students from across Canada gather for the IMPACT! The Co-operators Youth Program for Sustainability Leadership 2011 conference.

In the wake of the financial crisis of 2008, public trust of “big business”, and financial institutions in particular, fell dramatically. The Co-operators has regained trust much faster than its competitors and stands at its pre-2008 level, 17% higher than the industry average at the end of 2011.

Accolades & Appreciation

Reflecting its outstanding sustainability progress to date, The Co-operators has placed in the top three ranking of the “50 Best Corporate Citizens in Canada” by Corporate Knights since it first landed on the list in 2010. Corporate Knights, an organization that promotes responsible business practices and the advancement of social and environmental sustainability worldwide, ranked The Co-operators the top corporate citizen in Canada in 2011.



Kathy Bardswick, President & CEO, The Co-operators (centre), accepts the Corporate Knights award for Best Corporate Citizen 2011.

The Co-operators

The organization has also been named among “The Green 30,” a list of Canada’s top green employers, and has been listed consistently among Canada’s “50 Best Employers”.

The Co-operators is increasingly being turned to as a significant player in the business trend toward sustainability and increasing corporate responsibility. With this growing reputation, The Co-operators is challenged to continually increase its efforts and continue to exhibit leadership and responsibility as it strives toward the achievement of its business goals.

Conclusion

The Co-operators has recognized that sustainability is not only about building a reputation, or increasing loyalty among its workforce, or accessing more of a market. In essence, it’s about remaining relevant in a rapidly changing marketplace. By working to integrate sustainability into its governance, operations, culture, products and service, and communications, The Co-operators is preparing itself for the changing expectations of the insurance business and maintaining its license to operate. The organization has made a conscious effort to integrate mechanisms into its business that are part of solutions to sustainability challenges.

In recent years, climate change has resulted in more frequent weather disasters and record insurance claims for related damages. Dealing with this presents a significant challenge for the industry, but also an opportunity to play a crucial role in society’s transition to a sustainable future, re-establishing the role, purpose and reputation of insurance companies.

The insurance industry arose primarily to assist communities in recovering from shocks and crises, but also has a responsibility for loss prevention, adaptation and mitigation. The sustainability challenge presents a fundamental risk and opportunity for the insurance industry – one that The Co-operators has shown it is willing to address as it moves forward.

For more information about sustainability at The Co-operators, please refer to The Co-operators Sustainability Reports, available at www.cooperators.ca.

“Managing risk is the core business of insurance. As climate change and other factors increase the complexity and severity of the risks we face, it’s time for our industry to step up and play a leading role in overcoming unprecedented challenges to our environmental and economic sustainability.”

**Kathy Bardswick,
President & CEO**

The Co-operators Group Limited

CONTACT US

The Natural Step Canada
4 Florence Street, Suite 203
Ottawa, ON K2P 0W4
613.748.3001
info@naturalstep.ca
www.thenaturalstep.org/canada

The Co-operators
130 Macdonell Street
Guelph, ON N1H 6P8
1-800-265-2662
sustainability@cooperators.ca
www.cooperators.ca

