

Insurance and its Role in Sustainable Development

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Abstract

In today world the concept of Sustainable Development is essential. Sustainable development means without compromising the need of the future the present need of the society must be fulfilled in competitive business environment. It has gained popularity in present world. Now sustainable development has become the need of an hour. Every country is adopting it and India is one of them. Insurance industry is playing a pivotal role in sustainable development by adopting it as an objective. Now the new concept that emerging in the current scenario is Sustainable Insurance, which is a strategic approach towards sustainability with an objective to reduce risk, develop innovative solutions, improve business performance, and giving contribution to environmental, social and economic sustainability. The purpose of writing this paper is to define the role and contribution of insurance in sustainable development in current scenario, to find out the issues and challenges, and to explore the canvas of the new term *sustainable insurance*. This paper is based on secondary data source.

Keywords- Insurance; sustainability; sustainable insurance; role of insurance in sustainable development.

Introduction

To attain the goal of sustainability, in this competitive and fast changing business era a comprehensive effort is needed. The term “*sustainable development*” is defined as development to achieve the needs of the present generation without sacrificing the future generation needs. Sustainable development, at present time is a most concern phenomenon. Globally as we see that every country, including most developing countries like India, show its concern towards sustainable development because they realize that their future generation must not suffer from lack of resources which is obviously most vital for the survival. The concept of sustainable development comes after Second World War; it is not only related to future generation but also with the

present generation. The changing expectations of society and growing awareness about sustainability has compelled many organizations to adopt sustainable business practices and insurance is one of them, by adopting sustainability as a goal to survive in the environment. From the past years insurance have been at the forefront of the corporate world in alerting the society to the risk of climate change and, more recently, threats such as the loss of biological diversity and the growing pressures on forests, fresh water and other essential ecosystems. Insurance companies are also increasingly recognizing the need to develop products and services that address the needs of a rapidly changing world.

Insurance and Sustainability

Insurance plays a very important role in developing a sustainable business organization through its products and services. By insuring the society, business organizations etc against the uncertainties of risks, it improves the standard of living of the society and builds confidence to take challenges and catch the opportunities available in the business society. In the words of **Riegel and Miller**: “*Insurance is a social device whereby uncertain risks of individuals may be combined in a group and thus made more certain; small periodic contributions by the individuals providing a fund out of which those who suffer losses may be reimbursed.*” It provides financial assistance and security against the risks to the society with an element of saving and investment.

Objectives

A sustainable business operates in the interest of all and ensures a long term health and survival of business and is associated with the social, economic and environmental system. Sustainability for this paper means, to maintain a balance between the insurance industry and the society, doing business activities without wasting the resources of the nature for the development and betterment of the whole society. The objectives of this paper is to define the role and contribution of insurance towards sustainable development in current scenario, to find out the issues and challenges, and to define the sustainable insurance. This paper is an exploratory work which is based on the past literature review that is secondary data, including published research, websites, books, journals etc.

Literature Background

Today much of the discussion are related to environmental, climate, social and governance issues which emphasizes on the costs that private business concerns play to sustain in the market. A sustainable development approach suggests that for the long term social well being and continued success of the business, private business should plan their business strategies in such a way, which improves their business results and contribute towards community betterment. “*Sustainable insurance*” adopts this approach but has implications far beyond the insurance business.

Insurance provides an essential underpinning for economic activity by addressing a wide range of risks businesses face. By understanding and developing solutions for sustainable development, the insurance industry has a broad range of expanding growth opportunities. *International Insurance Society (2012)*

In the current scenario countries are much more likely to experience sustained growth in their line of business, if their insurance markets are well developed. Development of insurance market is closely related to improved financial sector performance and it is true that without the investment of public and private sector in their infrastructure it is impossible for insurance market to develop adequately. *Lian Han et. (2010)*

According to *Ray-Ann Sedres (2007)* there is a need for all business to plan strategically around the reality of change, to understand that change and to manage it, becomes important not only for the survival and sustainability of the sector, but also to continue delivering a service to millions of customers who have invested in insurance and rely on the sector for help when things go awry.

The term sustainability is a buzzword and the terms such as sustainable development and corporate sustainability as well as corporate social responsibility are often used interchangeably. Sustainability refers to an organization's activities which are typically considered voluntary and that demonstrate the inclusion of social and environmental concerns in the business operations by *Marcel Van Marrewijk, (2003)*. *Inyang (2004)* states that the business owes society an obligation or debt – for taking something from the former and so it must give something in return to the latter, and this would continue to provide the fertile grounds for latter's continuous existence.

Sustainable Insurance

Due to the need of the time, the concept of Sustainable Insurance evolve in the economy which is a strategic approach where all activities in the insurance value chain, including interaction with stakeholders, are done in a responsible and forward-looking way by identifying, assessing, managing and monitoring risk and opportunities associated with environmental, social and governance issues. Sustainable insurance aims to reduce risk, develop innovative solutions, improve business performance, and contribute to environmental, social and economical stability.

The principles for sustainable insurance provide a global roadmap to develop and expand the innovative risk management system and insurance solutions that we need to promote renewable energy, clean water, food security, sustainable cities and disaster-resilient communities. With world premium volume of more than \$4 trillion and global assets under management of more than \$24 trillion, insurers that embed sustainability in their business operations can catalyze the kinds of financial and investment flows and long-term perspectives needed for sustainable development. The principles for sustainable insurance acts as a foundation upon which the insurance industry and society as a whole can build a stronger relationship, one that puts sustainability at the heart of risk management in pursuit of a more forward-looking and better managed world.

Role of Insurance towards Sustainable Development

Today risk assessment and risk management sit at the centre of many of our sustainability challenges. Understanding and dealing with many different kinds of risks is the particular expertise of the insurance sector. As a result, the connectivity between sustainable issues and the insurance sector is strong and will be increasingly appreciated by broader society. In considering ‘what has been achieved by the insurance sector?’ in terms of sustainability, it is necessary to explore how risks and sustainability are connected and where insurance sector plays a role in mitigating both traditional and emerging risks such as climate change, natural calamities etc. The involvement and contribution of the insurance sector in environmental sustainability concerns is easily summarized below:

- Insurance companies are involved in the settlement of all sorts of environmental losses, whether it is man-made or natural.
- Insurers have considerable know-how in risk management and claim handling.
- They have given loss prevention advice to business organizations, general public and to the society through professional experts.
- They act as a guardian, by providing financial assistance to the society in exchange of a nominal amount of premium.
- Adoption of technology and online insurance market reduces the paper works which automatically save the environment.
- It improves the standard of living of the society through innovative insurance products.

Issues and Challenges

- Misusing the resources in a very vital manner, is not good for the present generation as well as to the future generation, is the major issue in this scenario.
- It is very difficult for the insurance company to find solutions for heavily exposed risks and regions such as houses or factories on river banks with flood potential or properties in areas of high earthquake risk.
- Development of products that support sustainable development is another challenging task in front of insurance companies.
- Awareness towards sustainable insurance is slow in India.
- Change of climate, depletion of resources, excessive inequality, and new technological risks are another sustainability challenges that insurance industry is facing today.

Recommendations

- Government should organize various campaigns to aware the society on various environmental issues through various means.
- Insurance companies should adopt different innovative techniques to sustain in the market.
- Appointment of experts, loss assessor surveyors and use of new technology to maintain sustainability.

- Insurance companies should adopt paper less documentation system to save the resources through green marketing.
- Comprehensive efforts should be needed from the whole society to make sustainable development possible.
- There is a need to establish well-defined and enforceable rights and security of tenure.
- Insurance companies should adopt the concept of sustainable insurance for achieving stability in their business.

Conclusion

Today everyone knows about sustainable development. Now several organizations, industries etc are making sustainable development as a goal for success and for the survival in the present and for the future. Insurance industry is also adopting the concept of sustainable development as its goal and making various alterations and innovations in their products and services to sustain in the market. By following green marketing, adopting sustainable insurance and organizing environmental awareness campaigns, insurance industry contributes a major share towards sustainable development. It is the duty to everyone to utilize the present resources in an optimal manner so that our future generation will be benefited by it, and then only sustainable development will be achieved in the world.

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