SUSTAINABILITY, A THIRD WAY OR A THIRD RATE

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Abstract

Sustainability has become a part of our day-to-day life, governmental policies and awareness campaigns on this subject are a constant presence and embracing its principles has never been so easy. However, it comes with a cost, with a financial burden that sometimes may become difficult to cope with. As some countries began to question these costs, especially when referring to sustainability's toll on competitiveness, many initiatives, programmes or regulations that were supposed to be implemented are now questionable and under a revision process. Some scholars consider that it is already an irreversible process, while others consider that the path towards sustainability has been diverted, especially as some countries are expected to follow the US example, which has already determined even the flagship of sustainable-related regulation, the EU, to take some steps back. As both categories may have strong arguments, perhaps the things that drive our motivation for sustainability should be turning the odds.

Keywords
Sustainability, ESG, Motivation, Regulations, Recycling

JEL Classification
D1, F18, K34, Q01, Q2, Q53

Introduction

Recent events and the latest political trends have triggered what some experts fear to be a general setback when it comes to sustainability politics and programmes all over the world. As the pace of implementation is set to suffer a slowdown and some targets are obviously off limits now, all the voices against everything related to sustainability, global warming or environmental protection are expected to be rising high and become louder than ever. It is difficult to avoid the fact that the domain is already overwhelmed by regulations, as an analysis of the sustainability related regulations could easily become a subject of a distinct paper. Some of these regulations, whether we mention laws, treaties or even local decisions, have become more and more complex and

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demanding, imposing actions and investments that are barely supported by companies and sometimes difficult to understand. In many ways, a slowdown or a trend against this wave of regulations was to be expected, especially when the cost of implementing the required measures was rising continuously. The big question is, should we consider it a trend or even a complete turnback? Would these voices become the overwhelming noise, a burning fire that will consume everything? Have the actions towards sustainability and low carbon emissions been overheating, were the objectives unreasonable set, with time limits impossible to achieve?
There is no straight answer, but some aspects may give a hint of the things to come.

1. Review of the scientific literature. A path towards sustainability paved by regulations

When the insurance sector comes along with terms like ESG, sustainability or reducing the carbon footprint, there are several milestones to be mentioned. Whithout presenting a chronology nor a classification of those, refferring to Geneva act in 2009 or the EU legislation promoting sustainable behaviour should present relevance for constructing argumentation for an attempt to asses a possible evolution on this matter. So basically, if the Geneva act, - *The insurance industry and climate change – Contribution to the global debate* (The Geneva Association, 2009) may have set the insurance industry fundament for establishing a legal framework to fight the climate changes, it was the European Union who furthered away the path and set the pace for implementing politics and programmes based on numerous legal requirements such as (non-limitative list):
Environmental Protection Agency Act 1992; Waste Management Act 1996; Waste Management (Amendment) Act 2001; Climate Action and Low Carbon Development (Amendment) Act 2021; Circular Economy and Miscellaneous Provisions Act 2022; Sustainable Finance Disclosure Regulation (SFDR); Corporate Sustainability Reporting Directive (CSRD); Corporate Sustainability Due Diligence Directive (CSDDD); Carbon Border Adjustment Mechanism (CBAM); EU Taxonomy; Climate Delegated Act or 'Fit for 55' Package, and the list should continue.
Should we narrow it down to the insurance sector, the common opinion is that the sector is not the front line of this debate, as the impact of the insurance industry is rather insignificant. Still, as a counterargument, there are also quite a few regulations worth mentioning, like those on risk management or transparency in financial services, such as Regulation (EU) 2019/2088 of the European Parliament and on sustainability-related disclosures in the financial services sector of the Council of 27 November 2019, UE Regulation 2019/2088, and also including directives such as, "The Corporate Sustainability Reporting Directive (CSRD), introduced to replace the Non-Financial Reporting Directive (NFRD), setting stringent requirements for companies, also for insurers, to enhance transparency and accountability on environmental, social, and governance (ESG) issues. Under the CSRD, insurers are mandated to report on a wide range of sustainability factors, including climate change mitigation efforts, adaptation strategies, and investment exposures." (https://insurance.nttdata.com/post/the-path-to-sustainability-european-legislation-reporting-standards/). But perhaps the most relevant regulations are those referring to distribution, as those relate directly to the consumer. Thus, according to the Guidance on the integration of sustainability preferences in the

suitability assessment under the Insurance Distribution Directive (IDD) issued by the European Insurance and Occupational Pensions Authority (EIOPA), "for the purpose of a suitability assessment, it is important that insurers and insurance intermediaries obtain information on sustainability preferences in the course of the collection of information on investment objectives and this may be collected as the last element within the collection of information on investment objectives. However, in the latter case, this should not prevent the customer, at his/her initiative, from bringing up their sustainability preferences in an earlier part of the information collection". According to the same document, by observing Paragraph 4 of Article 9 Delegated Regulation (EU) 2017/2359 as amended by Commission Delegated Regulation (EU) 2021/1257 and recital 11 of Commission Delegated Regulation (EU) 2021/1257 The IDD requires that the information regarding the investment objectives of the customer should include his/her sustainability preferences. The level of information gathered should be appropriate to the specific type of product or service being considered. Insurers and insurance intermediaries should therefore be able to ask questions to identify a customer's individual sustainability preferences. So, as mentioned before, there are numerous legislative and regulatory norms implying sustainability and affecting the insurance sector, and it is not easy to navigate through such an abundance of obligations. This web of regulations and obligations is widely regarded as the possible reason for the setback.

However, when it comes to possible setbacks, tremendous importance is related to the Paris Agreement.

The Paris Agreement is a legally binding international treaty on climate change that was adopted by 196 Parties at the UN Climate Change Conference (COP21) in Paris, France, on 12 December 2015, and entered into force on the 4th of November 2016, aiming to avoid "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels." The huge relevance of this agreement is that it is not just a declaration but a legally binding act that generates leading actions with the consequent finances provided from de developed countries that generate actions, programmes and set directions for future development applicable to every industry, including the financial sector. Thus, referring to recent events that are to trigger a possible significant setback is the United States' recent withdrawal from the Paris Agreement. It must be said that it is not the withdrawal itself that causes the biggest concern, but the causes that led to it, which are related to the need for higher competitiveness in possible economic conflict that is more and more likely to become a reality. Considering such motivation, this action is set to put things in motion as more countries could follow. Moreover, it has already led to a change in attitude at the EU level with the so called "Competitive Compass", perhaps an already visible approach to reconsider its carbon emissions targets, having to address the same issue of competitivity.

Another important and possible game changing move was when the American banks have started to leave the NZBA, Net-Zero Banking Alliance, a global banking alliance establish with the purpose suggested by its title, aiming to gradually lower the carbon footprint, with clearly set objectives like: "Transition the operational and attributable greenhouse gas (GHG) emissions from their lending and investment portfolios to align with pathways to net-zero by 2050 or sooner; Within 18 months of joining, set targets for 2030 or sooner and a 2050 target, with intermediary targets to be set every 5 years from 2030 onwards; Banks' first 2030 targets will focus on priority sectors where the bank can have the most significant impact, i.e.., the most GHG-intensive sectors within their portfolios, with further sector targets to be set within 36 months; Annually publish absolute emissions and emissions intensity in line with best practice and within a year of setting targets, disclose progress against a board-level reviewed transition strategy setting out proposed actions and climate-related sectoral policies; Take a robust approach to the role of offsets in transition plans." (https://www.unepfi.org/net-zero-banking/commitment/). Unfortunately, this means that sustainable investments will have less access to funding, and where funding will be available, the cost will be higher, making the investments even less profitable than before.

As for the insurance industry, at first glance, not being in the polluters first row, the insurance industry is not often mentioned when it comes to carbon emissions. However, "Insurers' carbon emissions emanate from various operational areas: - Underwriting Risk: Contributes 35% to 40% of insurers' carbon footprint, encompassing emissions from insurance underwriting processes and claims management.

- Own Operational Actions: Account for 1% to 5% of emissions, covering internal activities such as office operations and business travel.
- Investment Exposure: Represents the largest portion, contributing 50% to 55% of insurers' carbon footprint, arising from investment portfolios including holdings in carbon-intensive industries and assets."

Figure no. 1 – Footprint areas of an insurer
Source: https://insurance.nttdata.com/post/the-path-to-sustainability-european-legislation-reporting-standards/

2. Research: Motivation for Sustainability

The international situation seems to be very volatile, making prediction less and less valid, so perhaps some more reliable aspects could provide the answers. If we start with the hypothesis that sustainable products are here to stay, the question is how big the impact of these above mentioned events will be on the sales performance of such products. To answer such a question, we should first take a look at the driving force behind a sale. Behind any action and sales do not except, there is motivation, the will to do, the desire to perform has a motivation that drives that willingness. Usually, the individual performance relates directly to motivation, regardless of the field of activity and insurance distribution is no exception. Specifically, we approach the motivation for sustainability, which may be defined as a person's willingness to get involved in activities and decisions favourable to the environment and society. Dividing this willingness, we can analyse the reasons behind the motivation for sustainability, starting from the two pillars, intrinsic and extrinsic.

The very well-known Self Determination Theory (Deci & Ryan, 2000, 2012; Ryan & Deci, 2017) divides motivation into different categories, with the most distinctive and relevant for this paper being intrinsic and extrinsic. Intrinsic motivation is the one that may lead to satisfaction, to that feeling of achievement and the sense of success and is derived from internal stimulus like personal beliefs, moral values or education. On the other hand, extrinsic motivation derives only from external incentives such as bonuses, carrier management advantages, financial rewards, regardless of the source or even things like the need to avoid sanctions or conforming to norms that determine sustainability. There is always a mix of those two motivation types, especially when it comes to the relationship between the salesperson and the customer, with a lot of factors that intervene during the process. "The successful application of Self-Determination Theory to resource dilemma demonstrates the importance of taking into consideration the type of motivation, and the separation of motivation from goals in predicting cooperative, sustainable behaviour over finite natural resources. The results of the bootstrapped mediation showed that, when taken together, motivation and goals can explain a large portion of the variance in sustainable behaviour (54%), indicating a strong effect."(Baxter et al, 2020).

Sustainability is on both sides, intrinsic and extrinsic motivation, but most of the time, we'll find that intrinsic motivation is presumably leading to more consistent behaviours. "Intrinsically motivated employees, stable employees who do not intend to leave the organisation, are often those who work in companies that engage in long-term career development" (Wood, 1995). For any individual, success can be very motivating, a confirmation. "Satisfaction regarding competence allows individuals to adapt to complex and changing environments, while frustration related to competences can lead to feelings of helplessness and lack of motivation"(Deci E.L., Ryan R.M., p 75, 2000).

So, it is when the intrinsic motivation leads to long-term engagement, naturally to presume that such individual motivation could remain unaltered by the lack of extrinsic motivation. Also, organisational commitment and loyalty to specific employers are usually related to a higher degree to intrinsic motivation (O'Driscoll, Randall, 1999). So, even though we credit intrinsic motivation with higher relevance, both have the role of increasing customer satisfaction, employee involvement and knowledge. Atkinson, 1964; Vroom, 1964 consider intrinsic or extrinsic motivations to be additive, such that both should be summed up to produce an individual's motivation. Intrinsic motivation is defined as voluntary involvement in an activity for the satisfaction and pleasure experienced while performing that activity. “An intrinsically motivated employee is genuinely interested in their job and even experiences a sense of satisfaction while working. Extrinsic motivation, in contrast to the first, involves involvement in an activity to obtain a result that is separable from the activity itself. An extrinsically motivated employee puts effort into the activity to obtain, for example, a bonus. On the other hand, offering monetary rewards for doing an activity that is interesting to the employee will increase that employee's motivation. If the financial reward is removed, the person's motivation is expected to decrease”. (Van den Broeck et al, p4, 2008). Also, regarding the extrinsic motivation, it is hard to determine the actual relevance on the Romanian insurance market, as specific bonuses directly related to sustainability are not very common. The bonus system is a complex process which requires compliance with basic, fundamental principles such as correct and fair distribution, the awards system’s level of transparency, and the internal procedures that are the basis of the reward system. Applying this to isolated sustainable products may prove rather difficult, as it must be also mentioned that the bonus/premium system etc. when directly related to performance is a strong motivating factor, but is actually efficient, especially in correlation with other factors, organisational equity, transparency etc. When these conditions do not meet, the efficiency of o bonus system may be undermined and fail to achieve its purpose.

Recently, and mostly due to media coverage and advertising the general attention was switched to renewable energy sources and electric vehicles and somehow, they identify with the notion of sustainability, which is not just wrongfully addressed, but it creates a false image. Sustainability is way more than that, and even though some aspects may suffer a drawback, there are so many others that count and that can be enhanced. For example, recycling plastic is way behind where it could be, as “only 9% of plastic waste is recycled (15% is collected for recycling, but 40% of that is disposed of as residues). Another 19% is incinerated, 50% ends up in landfill, and 22% evades waste management systems and goes into uncontrolled dumpsites, is burned in open pits or ends up in terrestrial or aquatic environments, especially in poorer countries.”(OECD, 2022). As shown in the Figure 2, it is not just about not being recycled but the vast majority of it is landfilled which creates more environmental issues, just as the huge percentage evading waste management ends up in oceans or being burned.

Regulations like the SGR recycling project in Romania, with similar programmes already successfully implemented in other EU countries are to have a tremendous impact on the level of plastic, metal and glass recycling, proving that social awareness campaigns along with stricter regulations have the potential not just to directly reduce the pollution but also to create sustainable habits and attitudes which count even more.

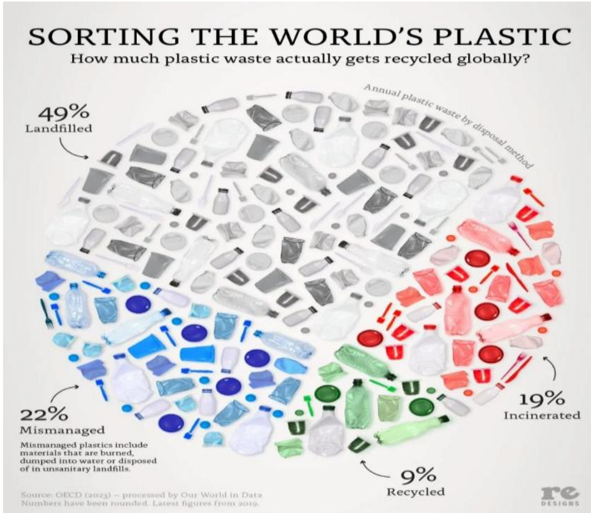

Figure no. 2 – Plastic sorting diagram

Source: https://www.voronoiapp.com/sustainability/How-much-plastic-waste-actually-gets-recycled-globally-3599

As it is obvious that a lot can be improved, there are certain areas where things have evolved at a much better pace, with such good results that are becoming a benchmark for other countries. One of these areas is the plastic packaging where there a much higher recycling rates in the EU, and even though there are significant differences between member states, it proves that progress is at hand and tangible. In some EU member states, like Spain or the Czech Republic, the packaging recycling rate reaches more than 50%, but even the lowest registers over 25%, with the average rate of 42%.

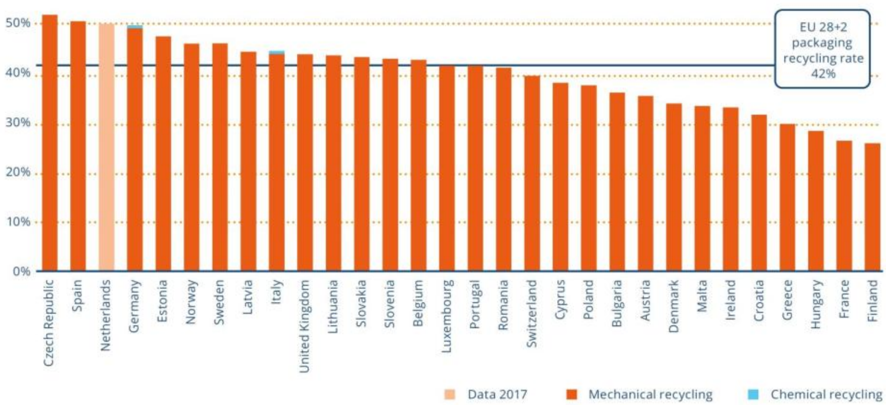

Figure no. 3 - Packaging recycling rate in European Union

Source: https://www.bpf.co.uk/plastipedia/faqs/is-it-true-that-only-9-of-plastic-gets-recycled.aspx

Conclusions

Implementing ESG practices required organisational changes, from structural to cultural, which have triggered behavioural adaptation. Employees have become much more self-aware of the environmental issues than ever before, and there is no turning back from this point. “Consumers may become more likely to choose the more environmentally friendly option when companies interested in promoting their green options use messages that make consumers sensitive to environmental issues, regardless of their dispositional concern for the environment. In particular, companies could employ messages that explicitly emphasize the positive (for essential goods) or negative (for nonessential goods) implications that might occur from consumers’ potential green vs. nongreen actions, thereby fostering their emotional engagement” (Mastria et al, 2023). Intrinsic motivation shall remain unharmed by all these recent changes, it may even grow bigger as the need to compensate might appear. It is exactly the emotional engagement that has been triggered by all the implemented measures, actions, politics etc targeting sustainability. It has become part of our everyday lives, from work to home, we are constantly aware of it. The approach towards sustainability needs to be adjusted, it needs to be updated, we need to have the proper approach to meet the times, the current challenges and to consider all the restraints resulting from those challenges.

Incentives for distributing sustainable products have not flooded the market; the base for extrinsic motivation was rather the need for compliance, avoiding penalties and fines or even a bad image, which in some cases might have affected the overall organisational performance. As some of these are to fade, be postponed (the latest example is the EU regulations on carbon emissions for the auto industry) or even disappear, it is likely that this type of motivation shall decrease. “Results showed that the more self-determined a person is, the more they focus on the health of the resource (i.e., keeping the population of fish sustained or growing), the less they focus on extrinsic rewards, and through these effects, they are more pro-environmental in their behaviour in the resource dilemma. In contrast, NSDM (non-self-determined motivation) directly predicted acting unsustainably. Moreover, the more a person pursued extrinsic goals or simply reacted to what their partner was doing, the less pro-environmental they were in task” (Baxter et al, 2020). It is true that incentives are useful and “offering incentives for responsible customers’ behaviour promoting prevention and energy-efficiency (e.g., special insurance rates for energy-efficient buildings or cars with recycled parts, and travel insurance incorporating carbon offsets) as well as incentivizing (e.g., through significant savings on insurance) industries which implement decarbonizing solutions for their carbon neutral transition” (E.Y 2024). Besides the very mediatized earth rising temperature along with the Paris Agreement targets to reduce it, which are not very palpable things, the air that people breath, the air quality constantly decreasing especially in great urban areas, these things are an everyday constant which anyone is aware of and measures, programmes aiming at reducing pollution are likely to get popular support. The financial world, the insurance companies, make no exception and despite the current setbacks, the ESG principles have set their mark, and funding will still be available, sustainable products shall continue to be on the table, along with consumers’ interest in them.

So, the trend that has become irreversible is the one towards a sustainable behaviour, which is the base, the fundament for any programme, initiative or strategy. The awareness of the environment that surrounds us, the consciousness of our actions determines the future, and even the sustainability is here to stay, this comes with cost and that cost must be affordable, it must be connected to the realities of the economy, to the level of competitiveness and with social and welfare aspects of our society.

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