Talking Climate and Resilience – Episode 1:

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JOHN HALEY: You think back to the hurricane going through Puerto Rico, and the devastation that you saw wreaked upon that island. I think everybody's heart just went out to the people when they saw how their lives had been overturned and destroyed. With the right kind of resilient investment, a lot of that wouldn't have happened.

SPEAKER: You're listening to Talking Climate and Resilience, a podcast series from Willis Towers Watson where we explore why climate change is a responsibility we all share. The challenge of achieving an orderly transition to a low-carbon, climate-resilient economy is increasingly a part of mainstream financial decision-making, as organizations across the public and private sectors respond to climate change and the wider implications for communities and society.

NIDIA MARTINEZ: Welcome, everyone, to our new podcast, Talking Climate and Resilience. This is Nidia Martinez, and I'm your host. For our first podcast episode, we are very lucky to have our CEO John Haley. Thank you, John, for being here today.

JOHN HALEY: Thanks very much, Nidia. I'm delighted to be here, and I'm looking forward to our conversation.

NIDIA MARTINEZ: Thank you. Thanks so much for agreeing and doing this. This is my first ever podcast, so I wanted to have the best possible guest. OK. So John and I had a pre-call last week, and we were talking about how we want to talk about climate and resiliency, what was the angle that we wanted to give to this. And I think we were both-- I mean, correct me if I'm wrong, John, but I think we both agree that it's a good idea to talk about how can we take the climate and resiliency puzzle apart into smaller pieces that are more manageable for everyone, because it tends to be something big.

JOHN HALEY: I think that's right, Nidia. And I think, as we think about it, particularly with just thinking about Willis Towers Watson and how we come at this, you think about what Willis Towers Watson has with our insurance, and our reinsurance capabilities. We have incredibly sophisticated models, as you know, because you work on some of them, so that we can help our clients understand extreme weather, understand the risks associated with them. But then also, from a risk management perspective, understand what they can do so that they mitigate those risks so that they build in a way that there's less likely to be affected by them.

But we have some special expertise in certain areas. And those areas really almost all fall in the area of resilience. And so what we want to do is look at where we can add value, where we can make a difference, where we can improve things, and that's where we want to focus our efforts.

NIDIA MARTINEZ: Yes, exactly. So the manifestation of natural catastrophes, in flood and through precipitation or storm surge, we're seeing it now with the wildfires. It's complex, and we oftentimes draw a parallel with COVID. When we as human beings are in front of a catastrophe, like for example COVID, it's so difficult to manage, even from an emotional point of view, because it's too big, it's too uncertain. We don't do well with uncertainty.

For climate, there is no silver bullet. Different people are going to address this in different ways. So how do we even start a conversation today, when we are facing also other issues like COVID, social unrestness, and so on?

JOHN HALEY: I think one of the things that human beings have a great ability to do sometimes is to compartmentalize. And this compartmentalization, where we focus on a specific problem, is actually how we bring some progress there. One of the things that I like, though, about Willis Towers Watson and what we bring, we work with clients on all these areas that are affected by client.

So our investment consulting operation, it's fundamental for us to understand the risks that are associated with investments. It's also fundamental for us to help investors decide where they want to put their money, where they want to put it into ones that are more resilient, ones that are working on mitigation. We have the same thing in terms of risk, we talked about with the risks from extreme weather. We have to help people understand how they can mitigate those, how they can insure or protect against the risks.

So all of the different areas that we touched there, we can start conversations with our clients at a very specific area. You're in a flood zone. Here's what you need to do for insurance. Here's what you need to do to build against it. Here's what some then larger implications are from mitigation, and why you should be supporting that. So I think we start at the lowest possible level, and then we work up to that, and that's how our expertise filters through.

NIDIA MARTINEZ: Yeah, I agree. We are in a really unique position, I would say, as we understand risk, because that's in our DNA. But we also understand people, right? We have a huge segment that deals with people and people's behavior, recruitment, and how do we retain talent.

JOHN HALEY: I think that's right, Nidia. And if you think about it, I talked about the insurance and the reinsurance part of it. But in fact, as I said, we also-- we're advising about $2 and 1/2 trillion of assets. And we help those investment funds decide where to put their money. Investors are increasingly concerned about environmental issues, and we can work with them to make sure their investments are going in the right places consistent with what their philosophy is.

We also work in the human capital area, where we can help companies and boards craft performance plans and compensation schemes so that they can reward the right kind of environmental behavior by their executives. So when you look at it, there's almost no area of this that we don't touch.

One of the interesting things that we've done in just the last year or so, we worked with one of the largest financial institutions in the world to assess the exposure of its real estate portfolio to climate risks. And we did a large-scale study of that, then with a series of follow-ups that were aimed at reshaping internal decision-making. And all this was based on our climate analytics. That's just an example of an incredibly sophisticated financial institution, but turning to us for the specific analytics that we can bring to bear. And frankly, as I said, it ends up with better decisions by the financial institution, better understanding of how to manage risk. And ultimately, their clients and customers get better results.

NIDIA MARTINEZ: So in the interest of making a big problem a little bit smaller into pieces, how can I imagine why it's important, for example, to quantify climate risk for a pension fund? How is that going to help me, and why? Why is that important?

JOHN HALEY: One of the reasons it's fundamentally important is, if your retirement depends on the performance of the assets that are in the pension fund, and if they're investing without regard to environmental considerations, there's a good chance that they might end up with assets that are just underperforming, and maybe even of limited or no value in the long run. So it's important to understand that. It's important to take that into account.

It's also important because the environment can be helped by just understanding risks. So think about the task force for climate-related financial disclosures, I think one of the great initiatives we've seen over the last several years. What that does is it's by making climate-related risks transparent, it forces people to focus on them. And once the risks are identified and focused on, then we begin to solve them.

We think a similar thing is true for resilient investments, although it's the flip side. Instead of it being a risk, we think there's a benefit from resilient investment that has just been ignored because it hasn't been transparent, and it hasn't been identified. And so what we want to do is to say, look, investing in resilient investment can pay off. Right now, it just looks like it makes something more costly, and that's because we haven't quantified the advantages of resilient investment.

And when you think back to the hurricane going through Puerto Rico, and the devastation that you saw wreaked upon that island, I think everybody's heart just went out to the people when they saw how their lives had been overturned and destroyed. With the right kind of resilient investment, a lot of that wouldn't have happened. You'll still get damage from extreme weather no matter what you do. I understand that. But you would have had nowhere near the devastation that you incurred.

And if we can build into the beginning, when you're first considering all of these infrastructure projects, the advantages of resilience, then we'll get better infrastructure. And we'll have our people ultimately better protected. And so that's why that's such an important thing for us. And it's where our climate analytics really come into play.

But with the Coalition for Climate Resilient Investment, this is a public-private partnership that we're working with, and it includes not just financial institutions-- although the financial institutions are important-- but it also includes engineering, and it includes the whole gamut of organizations that are working with infrastructure.

NIDIA MARTINEZ: Right. You just mentioned Puerto Rico, and that's a good example in the sense that it affected the entire community, the entire infrastructure, the shortage of power, and then water. And because it's an island also, it's hard to get things there fast enough. And so it's not enough-- I mean, it's a good start to become resilient yourself.

JOHN HALEY: Yes. In fact, I think it was a year or two ago, there was a hurricane on the west coast of Florida. And there was one house that had been built I think to withstand 200-mile-an-hour winds, or 240, something like that. But anyway, it was just built like a fortress. And that house survived, but it was in a field of just devastated houses around it, and you're

wondering, how could you even go back? So being resilient by yourself is only of limited value, I think in terms of that.

The other interesting thing I might just mention, Nidia, is-- and it's what makes this complex-- when we go through thinking about how can we make sure we understand the value of resilience, one of the things that happens is it makes some of these projects more expensive to do at the beginning. And our concern is, we don't want to just happen that the most vulnerable communities are now priced out of some of this infrastructure. So part of what we're working with with CCRI is to say, how do we understand how to quantify that? How do we also make sure that we get the right resources going to some of the most vulnerable communities in the world so that we get the resilience in the right place?

And that's part of why it's a public-private partnership that we're working on, because the last thing we want to do is to establish how great resilience is, and then have all the money flow only to the wealthiest communities. So we want to make sure we are aware of that and addressing that issue at the same time.

NIDIA MARTINEZ: You mentioned transparency, and I think that by making things transparent to everyone, all the employees, it would foster creativity. You never know where the next best game-changing idea is going to come from. I think that's a twist on transparency that oftentimes we're not thinking about, but it's about keeping the opportunity to educate employees and the community in general to think about the problem.

JOHN HALEY: I think that's right. I agree entirely. I think the greatest force in history for the improvement of ordinary people's lives has been free markets, and the innovations that come with them. And so no matter how intelligent central planners are, it's not the same thing as getting transparency out there, as letting the free markets and letting all the creative individuals around the world start working on these problems. So the more we can harness that, the better off we'll be.

NIDIA MARTINEZ: Yeah. I agree. And so I know that you've been an amazing supporter of climate, and climate risk, and the Climate and Resiliency Hub, and CCRI, and all those initiatives. You were in the-- actually, probably a year from next week, you were in the United Nations making the announcement of CCRI, I remember.

So I was wondering how often you think about this during your life. You get up in the morning, and you are a CEO of a company. I'm sure you have many things to think about. But what role does climate in general and resiliency play in your life and your family?

JOHN HALEY: So I think-- that's an interesting question, Nidia. And I guess a short answer is, increasingly, it creeps into everything I think about. I just should-- I guess it was-- it's almost exactly a year ago that we actually were at the United Nations and had a chance to address the General Assembly. And we got here because we had a lot of really good partners that we were working with, like the World Economic Forum was where this first started, was with talking with them about the idea. But the UK government, and Mark Carney at the Bank of England was a enthusiastic supporter, and just a terrific individual to helping us along there.

But also the Global Commission on Adaptation, we work with them. And so we have a lot of partners around there, and that's one of the things I think is the reason that CCRI has made so much progress.

So as I've worked with those people, though, and as I've worked with more of this, it increasingly affects a lot more of what I do each day. I live in Miami, as you know, and extreme weather is something that we think about here. And I've been in Miami now for 17 years, and I think about extreme weather a lot more now than I did in 2003. So I've seen that change.

But even I'm a mathematician by background, and so I like to follow a lot of what's going on, but the whole notion of path dependencies, and how path dependencies show up in climate, it's fundamentally a mathematical phenomenon, a lot of that, but how it shows up in climate models, I'm intrigued by that. So there's a lot to keep your attention there, unfortunately, in climate, because it's beginning to impact everybody everywhere.

NIDIA MARTINEZ: So what are the things you think that are going to be better, and what are some of the things that you think are not going to be as good or worse that your children are going to be living?

JOHN HALEY: You know, it's interesting, and maybe this is part of-- I talked earlier about compartmentalization. Maybe this is where this comes to play, because I look at all of these problems that we can identify around extreme weather, around climate, around path dependencies. I think about tipping points, and you reach a tipping point, and then you're not getting back again to where you had been even if you can remediate some things. And they seem so daunting.

And yet fundamentally, I'm optimistic. And so even though I don't know what the solutions are, I'm optimistic that we'll be able to solve them, and to improve the lives of our children and our grandchildren in ways that I can't foresee necessarily right now. So I just have that fundamental optimism. Maybe that's what keeps me going.

NIDIA MARTINEZ: One of the issues that I think about a lot is education, and how is this-- there are different ways to address the climate resiliency challenge. And I am a believer in that we will need to change culture.

JOHN HALEY: You're absolutely right, culture needs to change. Young people feel much more passionately about this, and I think are ready to embrace some necessary changes. And so that's a positive. That's part of what gives me some reason for optimism.

But when you talk also about our company that, when I talk to folks or our colleagues around the world about what we're doing, uniformly, people are just excited that we're working on these areas, that we're addressing them. They're proud to be part of a company that is working on that, and they're very supportive of it.

And I think we're increasingly seeing that around the world, and that sort of culture changes is-- that's necessary. It's not sufficient, but it's necessary. A few years ago-- gosh, I can't remember, this is about three or four years ago-- we started the Global Ecosystems Resilience Facility to help with the coral reefs. And I know you know about this, but just for everybody,

the bleaching of the coral reefs is a significant problem. And a lot of times, when a bleaching occurs, it might be half of the reef that undergoes the bleaching event.

And there's a chance to nurse the reef back to health. And what we did was establish something where we created an insurable interest, and then the individuals or organizations with this insurable interest can purchase money, even maybe just to pay fishermen not to fish on the reef anymore, which is a big help in bringing it back. But there's lots of things they can do to that.

I love the fact that we're able to identify specific areas like that and just bring a solution to bear on it. And little by little, you knock these different problems down, and all of a sudden, you find you've made some real progress.

NIDIA MARTINEZ: Some of these islands where the reef is beautiful, the livelihood of the people, like 90% of it depends on the reef.

JOHN HALEY: Yes.

NIDIA MARTINEZ: So there's also like their future, right? Like, what are they going to do? I wanted, since we're on this topic, talk a little bit about the Willis Research Network that you're in.

JOHN HALEY: The secret to the Willis Research Network is working with these top universities and other institutions around the world, and working in a cooperative way so that we can trade that expertise-- we're doing the same thing with the Coalition for Climate Resilient Investment, where we're bringing in Oxford University, for example, is working with us. But this whole notion of tapping some of the best expertise around the world, that's fundamental to what we do at Willis Towers Watson.

NIDIA MARTINEZ: Thinking about an ocean product that we wanted to build, I talked to my former advisor at Scripps Institution of Oceanography, and he was like, can you make all of this useful for people? He was so genuinely happy that his research could make someone else's life better, which is fundamentally why you get into science, but oftentimes you don't see it.

So John, thank you so much. And I have one last question for you, and I'm going to ask this question to every guest we have. And it's what can we do better from the Climate and Resiliency Hub?

JOHN HALEY: The one thing that occurs to me, Nidia-- and it's something you referenced earlier in the conversation, but making these problems more real and more relevant at the individual level. We talk about we need culture change, and culture change occurs when people understand at a personal level what's going to be happening to them. And I think we need to continue to press on that front.

NIDIA MARTINEZ: Great. I couldn't agree more. Thank you so much, John. It's been a pleasure to spend time with you.

JOHN HALEY: I've enjoyed this thoroughly. Thanks a lot.

NIDIA MARTINEZ: Thank you.

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SPEAKER: Thank you for joining us for this Willis Towers Watson podcast featuring the latest thinking on the intersection of people, capital, and risk. For more information, visit the Insights section of willistowerswatson.com.