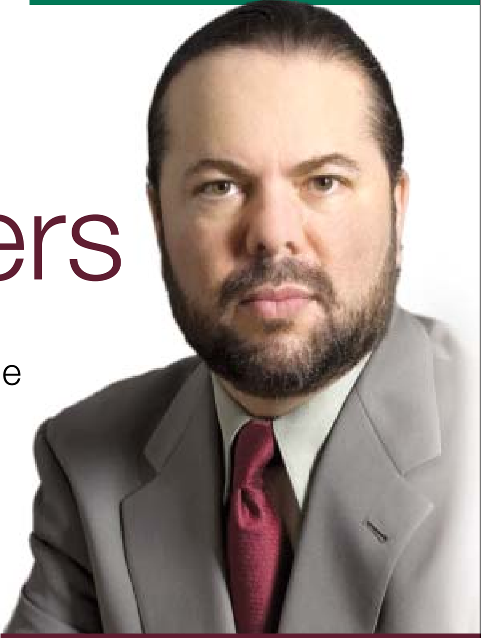
Why Going Green Matters

An environmental expert says insurers see business opportunities in the environmental market and intolerable losses if climate change is ignored.

by Lynna Goch



Evan Mills

Climate Change: Insurers Respond
The Second Part of a Series

Evan Mills is a staff scientist at the U.S. Department of Energy's Lawrence Berkeley National Laboratory. He has studied the implications of climate change for the insurance industry for more than a decade, and issues an annual report entitled, *From Risk to Opportunity*, cataloging the increasing number of innovative green initiatives being launched by insurers. In February, Mills was interviewed by *Best's Review*.

Some business people think the green movement is a "feel-good gesture" and that it has no financial implications. What's your rebuttal?

This is an old-school view, and, indeed, one can argue that early efforts by many industries (not just insurers) were nothing more than PR stunts. There has been a material shift and change for the better in recent years, evidenced by a major ramping up of the investment in "green," and, more importantly, a much deeper rooting of green activities within insurance companies.

There are two drivers. Insurers have realized there is money to be made by stepping into this arena, and intolerable losses if climate change is unabated. Products such as Fireman's Funds' green buildings insurance and Travelers' discounts for hybrid cars have had very rapid uptake in the market. There are other business reasons, such as mitigating reputational and regulatory risk and responding to shareholder concerns and expectations.

The "climate czars" at these companies report at a very high level, even directly to CEOs, rather than being marginalized as was the case years ago. That said, it is prudent to keep an eye out for "green-washing" and there will no doubt be insurers who do no more than this.

What role does the National Association of Insurance Commissioners play in the climate- change issue regarding the insurance industry?

I was asked to provide testimony on this at a recent NAIC meeting, which is summarized in an article forthcoming in the *UCLA Journal of Environmental Law and Policy.* We've identified 12 specific ways that NAIC can play a role in maintaining solvency, availability, and affordability.

These broadly involve:

• Fostering better modeling and data gathering to understand climate change,

• Promoting more transparency (via disclosure) of risks faced by investors and customers, and

• Enabling insurers to bring new products and services to the market.

NAIC's traditional role in influencing pricing and loss-prevention is, of course, important. Regulators should also play a constructive role in validating the impacts of insurers' "green" initiatives.

Name three essential practices insurers should follow in response to climate change.

Developing new products and services. Our recent report, *From Risk to Opportunity*, lays out 14 specific types of products and services, all of which at least one insurer has brought to the market. Among the 120 examples we've identified are mileage-based insurance policies offered by Farmers, GMAC and Progressive.

Rebalancing assets to minimize climate risks and maximize opportunities. This is being called for by many investors, including The Investor Network on Climate Risk—directed by Ceres—which is a group of 60 institutional investors from the U.S., Europe and Canada who collectively manage over $4 trillion in assets.

Improving their understanding of climate change and helping insureds manage risks. It is critical to eliminate blind spots in the current tracking of losses associated with extreme weather events and to improve climate modeling. Much more effort could be made to enhance disaster resilience, for example, through improved building codes and disaster recovery strategies. BR

Listen to the full interview with Evan Mills at *www.bestdayaudio.com*