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The scientific consensus on climate change has spurred some insurance companies to act by introducing products that deal with the causes and exposures of global warming. While ambitious insurance coalitions have been formed in the United Kingdom and United States to address the long-term impact of climate change, individual insurers have taken the coverage lead in areas ranging from renewable energy to hybrid cars to "green-certified buildings." Is this real progress or just the tip of the proverbial iceberg?

ADJUSTING TO CLIMATE CHANGE

It seems hardly a month goes by without the announcement of a bold initiative from either industry or government to reduce greenhouse gases and address the issues surrounding global warming. A good example of this happened in September 2007, when a group of 16 global insurers, reinsurers and brokers -- many of them parent companies of branch operations in Canada, such as AIG, Aviva, AXA, Munich Re, Royal &SunAlliance, Swiss Re and Zurich -- outlined far-reaching commitments through the British-based ClimateWise program. Twenty-one additional insurance groups have since joined on.

The six goals of ClimateWise do not shy away from making the insurance industry a focal point for change, and even advocacy, regarding action on global warming. The insurers' goals are to:

• lead in risk analysis;

• inform public policymaking;

• support climate awareness amongst customers;

• incorporate climate change into investment strategies;

• reduce the environmental impact of their businesses; and

• report/be accountable.

"The principles set a framework for us taking up this exciting

challenge of changing behaviour, raising awareness and encouraging new ways of working," asserted Peter Hubbard, chief executive of AXA Insurance and chairman of the industry working group that drew up the ClimateWise principles.

Three U. S. insurer groups (ACE, The Hartford and Travelers) have joined Climate Leaders, a program of the U. S. Environmental Protection Agency in which corporations complete an inventory of their greenhouse gas emissions, set long-term reduction goals and report annually on their progress. Another project called the U. S. Climate Action Partnership, which includes AIG and Marsh alongside other corporations like General Electric and Ford Motor Company, is calling on the American federal government for legislation to require significant reductions of greenhouse gas emissions.

Many of these and other projects, such as the United Nations Environmental Programme Finance Initiative (36 insurance signatories as of September 2007, including two from Canada) and the Global

Roundtable on Climate Change (five insurer signatories), are looking at measurable results in the timeframe of years, not months. It is hard to ignore the fact that the insurance industry is becoming more involved in green issues.

In Canada, no such coalition of insurers promoting the reduction of carbon emissions exists (the National Roundtable on the Environment includes no insurance members). Instead, the focus of industry groups such as the Institute for Catastrophic Loss Reduction has been on building more resilient communities and buildings to withstand natural disasters. The Insurance Bureau of Canada has recently expanded this focus on disaster prevention by calling on governments across the country to fix aging infrastructure, revamp building codes to build in climatic design values, consider sweeping land use revisions and improve disaster management.

Zurich Canada is also furthering research by funding Simon Fraser University's Adaptation to Climate Change Team (ACT). Announced last September, the joint program will examine ways to cope with the ongoing challenges of extreme weather events caused by global warming.

"Climate change is obviously of tremendous importance to Zurich Canada," says CEO Robert Landry. "Supporting ACT gives us an opportunity to actively assist in the development of policies that will benefit our customers and society as a whole." With the program kicking off in May, the company expects to have preliminary research results later this year, according to Zurich sources.

Beyond lobbying for public policy changes and research into disaster mitigation/adaptation, increasing evidence shows that insurance companies in various countries are taking individual approaches to manage risks. They are introducing new products geared to more environmentally friendly practices, addressing exposures that come with issues like carbon trading, corporate disclosure and directors and officers insurance, and providing risk management services to help organizations integrate environmental issues into daily decision-making processes.

An updated version of the most comprehensive report on the subject, *From Risk to Opportunity: Insurer Responses to Climate Change,* was released in November 2007.Written by Dr. Evan Mills, a scientist at the U. S. Department of Energy's Lawrence Berkeley National Laboratory, and commissioned by Ceres, a national coalition of investors, environmental groups and other public interest organizations dealing with climate change issues, the study cites 422 real-word examples of environment-related products and services initiated by 190 insurers, reinsurers, brokers and insurance organizations from 26 countries. This is more than 15 times the number of products and services since Mills' first report on this issue in 1999, and more than twice the number since a similar report released in August 2006.

"The context of the climate change debate -- and the insurance industry's relationship to it -- has shifted dramatically."Mills notes. "There is growing recognition within the insurance community that the impact of climate change on future losses is likely to be profound. . . Leading insurers are mobilizing a wide array of creative and proactive strategies to get in front of the climate change problem."

GREEN INSURANCE PRODUCTS

Although highly varied in nature, insurance products have tended to concentrate in areas of energy efficiency, including clean-air energy, hybrid vehicles or pay-as-you-drive programs, and green-certified buildings. "Some insurers perceive a 'halo effect,' in which insureds that adopt climate-change mitigation technologies are viewed as low-risk customers,"Mills observes.

One of the main areas of insurance activity is in the renewable energy marketplace. The global market for renewable energy is predicted to increase from US$55 billion in 2006 to more than US$225 billion by 2016. The global insurance market for wind energy in 2006 was US$495 million in gross written premium; that is forecast to grow to nearly US$2 billion by 2015.

The wind energy opportunity prompted Royal & SunAlliance Canada in 2006 to launch its ClearSky Solutions insurance products, designed around renewable energy. The first product focused on wind energy, which now holds a 20% market share in Canada, according to Royal's senior vice president of commercial and personal insurance, Shawn DeSantis.

"Canada's wind energy sector is currently growing at a rate of 30%, or 5% higher than the international average of the past 15 years," DeSantis notes. "From a global position, R&SA has been writing wind energy, solar, water to energy, biomass and hydro for more than 25 years, so we are able to draw on that global expertise to write renewable business locally."

Chubb Insurance is another player in the renewable energy insurance space. Last August, it formed a green energy team to respond to the increasing development of environmentally friendly energies, products and technologies.

"Chubb has served the energy sector for decades," says Peter Thompson, vice president and worldwide energy manager for Chubb Commercial Insurance. "As the marketplace has become more environmentally aware, we have broadened our expertise to meet its insurance needs. The creation of Chubb's green energy team will allow us to look beyond traditional renewable energy product and distribution risks and explore the insurance and loss control issues facing our other commercial customers."

The worldwide renewable energy market is one in which "hundreds of billions of dollars will ultimately be spent on clean-energy technologies and other responses, which in itself represents an enormous new capital base with associated business operations requiring insurance," Mills says. He notes examples of other insurers in this line of business, including AIG's global alternative energy practice, Allianz's climate solutions team and Aon's agri-fuels group.

Energy-efficient vehicles have also come under the spotlight. In some markets, insurance companies are offering premium discounts for the use of hybrid cars. Hybrid sales in Canada in 2007 jumped by 60%, although the vehicles still represent less than 1% of the market. There were close to 14,000 hybrids in Canada by the end of 2007.

J. D. Power and Associates predicts hybrid sales in the United States will grow 268%, reaching 4.2 market share in light vehicle sales.

Desjardins General in February 2006 became the first Canadian company to offer a 10% discount on auto insurance premiums to hybrid vehicle drivers. The company said the initiative was "in line with the sustainable development policy adopted by Desjardins Group . . . in October 2005." Aviva Canada adopted a similar discount for hybrid drivers in Quebec in May 2006.

Pay-As-You-Drive (PAYD) Insurance is another environmentally friendly policy option that some companies are pursuing in Europe and the United States. According to the Ceres report, 19 insurers worldwide offer PAYD insurance products, which tests show can reduce overall miles driven by 10-15% or more. About 20% of new customers of the French insurer AGF have used the PAYD option, with 250,000 policies in force. Progressive Insurance and GMAC are offering PAYD polices in parts of the United States.

There is currently no formal PAYD insurance program in Canada.

While much of the focus of environmentalism has been on cars and transportation, green construction standards are emerging as a major point of action. According to the Canada Green Building Council (CaGBC), it is estimated buildings and associated construction activities currently account for about 30% of greenhouse gas emissions in Canada -- and the volume is growing annually.

The CaGBC has established a Leadership in Energy and Environmental Design (LEED) green building rating system. Buildings are certified Silver, Gold or Platinum based on a point system that takes a whole-building perspective. As of January 2008, there were 91 LEED-certified projects across Canada; more than 300 are registered and waiting to be built. The CaGBC strategy is for an overall 50% reduction in average energy and water use by 2015, with targets of 100,000 commercial buildings and 1 million LEED certified homes.

La Capitale General Insurance offers a 15% discount on insurance premiums for LEED-certified buildings. Headquartered in Quebec, La Capitale has two building projects in Quebec City, both of which meet the LEED certification standards. According to spokesperson Audrey Bouchard, the company has written a small amount of premium based on the certification.

Energy-efficient buildings certified through LEED standards are also attracting interest from insurance companies elsewhere. The insurers' interest is based on the LEED buildings' sustainability and resiliency to severe weather. Fireman's Fund, a subsidiary of Allianz, became the first U. S. insurer to provide specialized coverage for commercial clients through its Green-Gard program, introduced in 2006. The coverage is geared to customers who have built green from the ground up, made green renovations to existing buildings or need to rebuild after a loss. The coverage, which will likely be extended to personal lines clients in 2008, has also been expanded to include Builders Risk.

AIG subsidiary Lexington Insurance Company was the first to launch a green buildings insurance product for residential customers in 2007. Used as an endorsement to standard homeowners policies, it allows properties to be rebuilt to higher green standards following a partial or complete losses. The Upgrade to Green Residential policy is supplemented with a similar commercial coverage.

Property and vehicle exposures are not the only insurance concerns related to climate change. Directors and officers' (D&O) risks have recently garnered attention on the liability side. Several insurers are worried about the increased number of shareholder resolutions related to climate change. Shareholders have filed more than 150 climate- change resolutions in the last five years, including a record 45 proposals in 2007, according to Institutional Shareholder Services. While none of these have proceeded to lawsuits, there is a concern amongst several insurers that the groundwork is being laid for potential legal action that could trigger D&O defence costs and indemnity.

"Insures providing directors and officers policies may face claims against their customers from shareholders," notes Mills. "Conversely, insurers themselves could be found liable for not disclosing climate risks -- both from their insurance business and their investments -- to their shareholders."

In an April 2006 publication, *Climate Change: Business Risks and Solutions,* Marsh pointed out "the insurance industry itself has received attention from investor groups concerned about the overall impact climate risk has on the industry's total portfolio."

To better educate corporate board members about the potential liabilities of global climate change, Marsh, in collaboration with Yale University and Ceres, launched a program in September 2007 called the Sustainable Governance Forum on Climate Risk.

THE FUTURE OF GREEN INSURANCE

These kinds of products and services are only the tip of the iceberg of many potential insurance responses to climate change issues, according to Mills. Others could include carbon trading and carbon-offset projects, climate risk management services and sustainable asset management In the conclusion of his Ceres report, he cites 10 insurance best practices that range from "lead by example in minimizing the insurer's own carbon footprint" to "invest in strategic R&D and re-balance investment portfolio to recognize climate- related risks to investments."

Despite all of the documented activity, Mills' overall assessment of the insurance industry's response to climate change is not favourable, with some notable exceptions. "Most insurers are behind the curve in developing forward-thinking products and services in response to climate change,"he notes. "Only about one in 10 of the insurers in our compilation are working in a visible way on contributing to understanding the mechanics and

implications of climate change, with a similarly small proportion incorporating these considerations into asset management."

These comments apply equally to the Canadian market, where examples of climate change awareness and action are sparse in the Ceres report. Just five Canadian examples of climate change initiative are cited, and only one for "innovative insurance product." This is perhaps surprising given the level of activity of many foreign parent companies in Europe and the United States on climate change and insurance exposures.

Similarly, property and casualty insurer responses to the Carbon Disclosure Project have been less forthcoming than other industries. The CDP is an investor coalition that requests information on corporate risks and opportunities associated with climate change from more than 2,000 companies globally. Of the 204 insurance groups that were asked to fill out the survey in 2006, four were Canadian property and casualty companies or brokers (four life insurance companies were also polled). All four property and casualty entities either declined to participate or did not respond.

Whether insurance companies in Canada and abroad actively take the issue of climate change into their own hands or are prodded into action by external sources, such as regulators, institutional investors or plaintiff lawyers, is a question that will be answered in the years ahead.

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