Insurance companies take on global warming

It's past time for the industry that rated vehicle safety and lobbied for building codes to address climate change, says Fortune's Marc Gunther.

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NEW YORK (Fortune) -- Throughout their history, insurance companies have done more than collect premiums and pay claims. They've made the world a safer place - by promoting fire prevention, lobbying for building codes, testing the crash-worthiness of cars and rating vehicles for safety.

Now some insurers are worried by the threat to their business posed by climate change. And they are starting to see what, if anything, they can do about it.

Some examples:

Marsh (Charts), the world's largest insurance broker, last spring sent a 36-page "risk alert" on Climate Change to clients that, among other things, looked at the possible relationship between climate change and natural disasters.

"Climate change - often referred to as 'global warming' - is one of the most significant emerging risks facing the world today, presenting tremendous challenges to the environment, to the world economy, and to individual businesses," the report said.

"Businesses - if they haven't already - must begin to account for it in their strategic and operation planning."

AIG (Charts), the giant global insurer, issued a statement on climate change that says it "recognizes the scientific consensus that climate change is a reality and is likely in large part the result of human activities that have led to increasing concentrations of the greenhouse gases in the earth's atmosphere."

The company has hired an economist who formerly worked for the nonprofit Environmental Defense to coordinate its climate change activities. Among other things, it is making private equity investments - it wouldn't say how much - in projects and technologies that reduce or offset greenhouse gas emissions.

Fireman's Fund, a unit of Allianz AG (Charts), this fall plans to introduce commercial insurance policies designed to support and encourage the development of "green" buildings that save energy and reduce emissions of greenhouse gases.

"We see more and more tenants looking for 'green' space," says Steven Bushnell, a company executive who helped develop the product. Fireman's wants to accelerate that trend.

U.S. industry off to a late start

None of these are world-changing moves but they represent steps in the right direction for an industry that ought to be at the forefront when it comes to dealing with the problem of global warming.

"This industry is perfectly situated to be a major part of the solution," says Mindy Lubber, the president of CERES, a coalition of environmental groups and institutional investors that has just published a report on the insurance industry and climate change.

The CERES report, which is called From Risk to Opportunity: How Insurers Can Proactively and Profitably Manage Climate Change, argues that the industry has a long-term interest in addressing the risk of global warming, and that it can make money by designing products designed to mitigate against climate change.

Some of the new initiatives are quite complex. Several insurers, for example, are developing products like "wind derivatives," which are designed to reduce the risks of building wind energy projects.

Other ideas are simpler. Pay-as-you-drive auto insurance offers reduced rates to car owners who drive less. (This makes business sense, of course, because their accident risks are lower.) The concept has been around for years but General Motors' GMAC insurance unit now couples a pay-as-you-drive policy with its OnStar global-positioning system that accurately measures miles driven. The upshot is that drivers who use their cars less and produce fewer greenhouse gases pay lower rates.

The St. Paul Travelers Companies (Charts) goes a step further. Travelers offers a 10 percent discount in car insurance rates for owners of hybrid cars.

The fact that the U.S. insurance industry is finally taking up the issue of global warming shouldn't be surprising; the surprise is that the industry took so long to wake up to the problem.

By contrast, European insurers, notably Swiss Re, have been grappling with climate change for years. They are, for instance, strong supporters of the Carbon Disclosure Project, an effort by big institutional investors to get public companies to assess the risks of climate change. Some U.S. insurers didn't even join in that project.

Why the U.S. industry is changing now isn't clear. The growing scientific consensus around global warming, cited by AIG, is probably one reason. Another, surely, are the weather-related disasters of the last couple of years, notably Hurricane Katrina.

In 2005, the insurance industry paid out a record $57 billion in weather-related losses, as my colleague John Simon reports in the current issue of Fortune. The industry has responded, in part, by raising rates and refusing to insure homeowners in coastal regions. But those are neither growth strategies nor ways for a highly regulated industry to win friends.

It will be interesting to see whether the insurers will now join in the Washington debate over climate change. Such influential companies as General Electric, Wal-Mart and Shell now say that they believe that the government should regulate greenhouse gas emissions.

If big insurers join them, their voices will be taken seriously on Capitol Hill and elsewhere. They could once again help make the world safer for the rest of us. ■