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Insurers Behind the Curve on Addressing and Disclosing Risks of Climate Change

by William Baue

Two reports, one from Ceres and one from Friends of the Earth, concur that climate change is catching insurance companies, which are particularly impacted by global warming, unawares.

(SocialFunds.com) - Climate change, severe weather events such as hurricanes, and insurance are three increasingly interwoven topics since Hurricane Katrina whirled destruction on New Orleans and the Gulf states late last month. However, insurance companies are way behind the curve on addressing climate change, according to two new reports.

Friends of the Earth (FoE), an environmental advocacy group, issued a series of reports earlier this month examining 112 companies' disclosure of climate change risks in their Securities and Exchange Commission (SEC) filings. Of the five sectors assessed, property and casualty insurers rank the lowest, with only 15 percent of companies mentioning climate change risk in their filings. FoE therefore performed a more in-depth study of securities filings of 106 insurers traded in the US and Canada, and found only five companies (representing 4.7 percent of the total) disclose climate change risks at all.

Ceres, a coalition of institutional investors and environmental organizations addressing sustainability, issued a report the same day entitled *Availability and Affordability of Insurance Under Climate Change: A Growing Challenge for the US*. The report notes the irony that the early September New Orleans meeting of the National Association of Insurance Commissioners (NAIC), which was slated to examine the implications of climate change on the industry, had to be canceled due to Katrina.

"Katrina also renews discussion about the influence of climate change on hurricanes," states the report. "While some have made too much of the connections, others are all too eager to downplay it."

The Ceres report was written by Evan Mills, a scientist with the Lawrence Berkeley National Laboratory, Richard Roth, former chief property and casualty actuary and assistant commissioner at the California Department of Insurance, and Eugene Lecomte, a 50-year veteran in the insurance industry and president emeritus at the Institute for Business and Home Safety (IBHS).

"Recent scientific work has established new linkages between rising sea-surface temperatures and the power of hurricanes, yet much more work must be done to understand the details," they continue.

The report notes that losses from catastrophic weather events--defined as those with over $1 billion in damages--have risen much more sharply than other financial and demographic indicators.

"Insured and total property losses ($45 billion and $107 billion in 2004, respectively) are rising faster than premiums, population, or economic growth both globally and in the US," the report states. "Globally, inflation-adjusted economic losses from catastrophic events rose by 8-fold between the 1960s and 1990s and insured losses by 17-fold."

"Unless insurers and their regulators take steps to address the growing challenge of escalating climate change impacts, then companies, governments, and the public will suffer even greater financial losses in the future," says Andrew Logan, program manager at Ceres.

The report makes recommendations to insurers, regulators, government, and consumers. Among these is for companies to "analyze the implications of climate change on their business and investments and share the results with shareholders."

"The FoE report shows that insurers, or at least US insurers, aren't paying much attention to the problem as of yet," Mr. Logan told SocialFunds.com.

The five insurers reporting on climate change risks in their 2004 annual SEC filings were Allianz (ticker: ALVG), Aspen Insurance (AHL), Chubb (CB), Cincinnati Financial Corporation (CINF), and Millea (MLEA)--Allstate (ALL) did so in 2003 but did not in 2004. However, Chubb and Cincinnati Financial provided only perfunctory acknowledgement of climate change, but stop short of identifying global warming as a business risk. Germany-based Allianz, Aspen Insurance, and Japan-based Millea, in contrast, all acknowledge the impact of climate change on natural disaster claims.

"Notably, Millea was the only company to actually suggest that their financial results for the past fiscal year was actually affected by climate change-related events," writes Michelle Chan-Fishel, coordinator of FoE's Green Investments Program, who authored the report. "The company states that 'Japan has been hit by more severe typhoons in the first six months of this current fiscal year than in the same period in the previous years and therefore our financial position and results of operations for the year ending March 31, 2005 could be significantly affected.'"

The report notes that European reinsurers Munich Re (which is not traded in the US) and Swiss Re (TUKN.SW) lead the way globally on addressing climate change.

"It is surprising that US property and casualty insurers, companies one would expect to be most attuned to risks associated with climate change, are not disclosing how those risks affect their business," says Ms. Chan-Fishel. "After these companies finish paying out the claims for Hurricane Katrina, their shareholders ought to demand full disclosure of climate change risks in future SEC reports."

The broader FoE report assesses four other sectors, and finds their disclosure of climate risks better. The utilities sector fares best, with 96 percent of companies examined providing disclosure of climate risks, while almost three-quarters (74 percent) of integrated oil and gas companies are disclosing climate risks. At just over a quarter of assessed companies reporting on climate risk, the automobile (26 percent) and petrochemicals (28 percent) sectors fare only slightly better than insurers. The discrepancy within sectors may flag risks for investors.

"Under Sarbanes-Oxley, corporate directors, especially audit committees, must guarantee that companies have adequate internal controls to identify, manage and disclose material risks," says Ms. Chan-Fishel. "Boards that fail to ensure appropriate climate reporting--particularly when a company's competitors are coming clean--may be in breach of Sarbanes-Oxley and their fiduciary duty."

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