2. CLIMATE: Insurers no longer cool about warming threats

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The insurance industry is bolstering climate-mitigation initiatives to buffer its bottom line from longer droughts, stronger hurricanes and other severe weather events that scientists expect will occur more frequently in a warming world.

Swiss Re, American International Group Inc. (AIG) and other global insurers have begun offering their clients tools in recent years that include "green" building credits, renewable energy investment incentives and drought-protection policies, according to a report unveiled in Fort Lauderdale, Fla., yesterday at the annual meeting of the International Association of Insurance Supervisors, an industry regulator group.

Evan Mills, the report's author and a scientist at the Energy Department's Lawrence Berkeley National Laboratory, identified 422 climate-related products and services from 190 insurers, reinsurers and brokers in 26 countries. That's more than double the number of climate products and services the industry offered just 14 months ago.

The industry changes are at once wide and shallow, said Andrew Logan, insurance program director for the Boston-based investor advocacy group Ceres, which sponsored the report.

"There's been a small amount of movement across a wide variety of areas," Logan explained. "The story of the next decade will be a scaling up of activity across the whole sector to deal with the scale of climate change."

Today's suite of climate-related insurance policies stands in stark contrast to the "near-universal lack of interest" in global warming amongst U.S. insurers as recently as three years ago, Mills noted.

But that was before Hurricane Katrina.

Hedging bets

While scientists agree that no individual weather event can be attributed to global warming, Mills said a growing body of scientific evidence indicates that rising temperatures are likely increasing the intensity of hurricanes, floods, drought, wildfires and other extreme weather events around the globe.

Direct insured property losses from weather-related catastrophes reached a record $61.2 billion in 2005, more than double 2004 losses, due to hurricanes on the Gulf Coast, according to Insurance Services Office Inc., which provides risk data to the insurance and banking industries. Hurricane Katrina alone amounted to $40.6 billion in insured losses.

That was more than enough to grab the attention of major insurers and their investors.

Last year, the online trading platform HedgeStreet Inc. began offering "hurricane contracts" that enable traders to hedge or speculate on the economic fallout of Atlantic hurricanes and tropical storms. Insurers that correctly bet on a storm or full season's economic damage could presumably use the money to offset the claims they pay out (*Greenwire*, Aug. 28, 2006).

Allstate Corp. and AIG, responded to the record 2005 hurricane season by declining to write new property policies in areas of the Gulf and Atlantic coasts (*Greenwire*, June 2, 2006).

Mills said moves by Allstate and AIG are typical of many insurers, particularly in the United States, which continue to focus chiefly on financial risk-management in response to climate change.

Risk profile

Just one in 10 insurers analyzed in Mills' report is outwardly responding to the implications of climate change, with a similarly small percentage incorporating such considerations into asset management. A third of the companies are offering climate-related products and services, and 4 in 10 of the firms are disclosing their perceived climate risks to shareholders.

"Most insurers are behind the curve in developing forward-thinking products and services in response to climate change," wrote Mills, who served as a scientist with the Intergovernmental Panel on Climate Change, which shared the 2007 Nobel Peace Prize last week with former Vice President Al Gore.

The U.S. Securities and Exchange Commission does explicitly require companies to disclose climate change as a "material risk" to their shareholders, a policy Ceres petitioned to change last month (*Greenwire*, Sept. 18, 2007).

The investor group's Logan said he expects U.S.-based insurers to follow the lead of their European and Asian competitors if the United States were to enact a mandatory cap or tax on greenhouse gas emissions. Such policies would greatly increase the liability of carbon-intensive industries and their policy underwriters, he contended.

Lloyd's of London, of the Kyoto Treaty-bound United Kingdom, has dubbed climate change its top issue, according to the report. The insurer is one of 39 companies that have signed the "ClimateWise" principles, an outgrowth from meetings between insurance industry executives and the Prince of Wales. The principles commit insurers and reinsurers to incorporate climate change into investment strategies and urge companies to analyse the risks of climate change.

Lloyds must encourage its policyholders to adapt to climate change, so they see themselves as "risk managers," Lloyd's top emerging risks actuary Trevor Maynard wrote on the company's blog last month. "For me, a crucial message for the future is that, to some extent, premium levels are in the hands of society; insurers simply share the residual risk, after risk management, amongst people."

Innovative tools

Mills' report singled out several other innovative climate-risk tools across the industry:

- London-based Willis Holdings, which provides comprehensive coverage for renewable energy projects, offers a policy that covers potential under-production from wind farms.
- Novato, Calif.-based Fireman's Fund Insurance Co. last year became the first in the industry to offer a green building replacement and upgrade policy for commercial property owners. Upgrades of efficient insulation, lighting and water fixtures are covered under the policy.
- Assurances Generales de France, a unit of Munich, Germany-based Allianz AG, offers a pay-as-you-drive policy for 250,000 of the vehicle owners the company covers. Progressive Casualty Insurance Co. and GMAC Financial Services offer similar policies in parts of the United States.
- Japan's Sompo Insurance offers insurance premium discounts to 3.25 million policyholders who drive fuel-efficient, low-emitting vehicles.
- Swiss Re last month launched its "Climate Change Adaptation Program," which uses climate models and satellite data to determine when weather-related claims are to be paid in response to severe drought conditions in sub-Saharan Africa. The goal of the program is to develop and implement risk indices for villages in Ethiopia, Ghana, Kenya, Malawi, Mali, Nigeria, Rwanda, Senegal, Tanzania and Uganda.

"Climate change is a fact, and some of its consequences have become inevitable," Swiss Re's top emerging risk executive Ivo Menzinger said in announcing the adaptation program at the Clinton Global Initiative annual meeting in New York. "Parallel to efforts that aim at reducing emissions, we have to improve resilience against changing weather conditions, particularly in emerging markets."

Click here to read the full Ceres report.