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The Times Are A-Changing

Climate change is a tsunami sweeping through the insurance industry

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In an August 22 presentation, Mindy Lubber, president of the environmental and investment coalition Ceres, baldly said that global warming is “the greatest threat the insurance industry has ever faced.”

With ties to every business sector and $3.4 trillion in revenues, the insurance industry must face this challenge for its own survival. Climate change issues will affect everything from insurability (due to location or building concerns) to corporate responsibility (pollution and emissions) to medical coverage (diseases caused by a harsher climate) and crop insurance (drought and storm damage).

In a study, “From Risk to Opportunity: How Insurers Can Proactively and Profitably Manage Climate Change,” released in August by Ceres, Dr. Evan Mills, staff scientist at the Department of Energy’s Lawrence Berkeley National Laboratory, and Eugene Lecomte, president emeritus of the Institute for Business and Home Safety and an insurance professional for more than 50 years, examined the breadth of change already afoot. The study examines everything from “Promoting Loss Prevention” to “Participating in Carbon Markets,” and addresses issues such as best practices within industries that can determine a company’s insurability, and new products such as “pay-as-you-drive” automobile insurance and energy-savings insurance (the study is available here).

The study suggests ways in which many risks cited can be transformed into opportunities to grow business and also to meet the challenge of climate change head-on and manage it in a way that will be beneficial to humanity. Changes in insurance underwriting will affect how businesses are run, how investments are graded, and how insurance policies are underwritten.

Greenhouse gas emissions, pollution, and corporate responsibility, as well as class action lawsuits, will affect coverage for businesses large and small. Think about insurers and reinsurers deciding an oil company is uninsurable due to the occurrence of a corroded pipeline because of liability issues, and you’ll get an idea of how far-reaching this can be. Another example: Real estate owners and developers will have to hew to higher standards in construction and maintenance at the behest of their insurers, much as the insurance industry once prompted building fire safety standards. According to Steve Zanofsky at FM Global, the property insurer based in Rhode Island, “We believe the majority of all loss is preventable,” and FM Global’s typical Fortune 1000 client company shares that philosophy and will be expected to improve its facilities to “prevent or mitigate damage.” Says Zanofsky, “Businesses can take control of their destiny and do it pretty cost effectively.” At FM Global’s direction, he explains, “Clients who have improved their facilities, compared to those who have improvements yet to complete, can reduce losses 85% with a cost of only $7,400 per facility.” While Zanofsky says this has already become “business as usual” for FM Global, as other companies decide to take a more active part in their clients’ businesses, look for boards of directors and business owners to be compelled to make changes.

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It's Not Easy Being Green
Only about 500 buildings in the U.S. are certified green under the Green Building Initiative, but applications for 5,000 more are pending. Fireman's Fund has launched coverage to allow building owners to upgrade their buildings, no matter how they were originally built, if fire or other damage occurs.

According to Stephen Bushnell, product director for Fireman's Fund Innovation Team, three separate endorsements provide green coverage. The first, for green-certified buildings, addresses alternative energy and water systems and even green roofs (literally green: trees and shrubbery growing on a soil roof).

The second, says Bushnell, "following a covered loss, will pay the difference to replace with upgrades to green personal property or building items." Typically, he says, a commercial policy "will replace with like kind and quality." This new coverage allows rebuilding with more efficient, effective systems—everything from lighting to air conditioning, plumbing systems, and computers used by employees—making the building cheaper to operate and maintain.

The third covers "commissioning." An engineer evaluates a building's systems to make sure they all work properly. This ensures improvements have the intended impact, and adds to the owner's bottom line.

Green coverage increases costs a point or two, says Bushnell, but buildings are safer (fewer fire losses) and more efficient, he says, saving owners money in the long run.