The New York Times

April 3, 2009

New Study: Insurers Move Slowly on Climate Risks

By EVAN LEHMANN, ClimateWire

Insurers worldwide are gearing up to confront climate change, substantially increasing the number of programs they offer to reduce storm damage, address emissions and encourage renewable energy projects, according to a **study** (pdf) released yesterday.

The industry's effort, however, only touches the "tip of the iceberg," the report says, underscoring widespread assertions that the secretive industry has been slow to adopt policies aimed at forestalling atmospheric warming and protecting its massive investments from weather risks.

Still, the giant industry is beginning to awaken to the risks and potentially lucrative opportunities to control and cover them. More than 640 products and services were identified in the report. That's a 50 percent increase compared to 2007. Policies include protection for corporate boards against climate-related lawsuits and liability programs for carbon capture and sequestration projects.

"There is no question that the industry is more aware of the need to act on climate change than ever before," the study says. It was authored by Evan Mills, a staff scientist with the Department of Energy's Lawrence Berkeley National Laboratory.

The movement is a reflection of rising risks -- from both nature and government. Last year's storms and other events provided the third-highest losses in history from natural catastrophes, at $200 billion worldwide.

The United States has averaged $18 billion annually in economic losses from natural disasters between 1980 and 2008, according to a report released last month by Maplecroft, a British risk management firm. Last year, the United States saw $57.3 billion in losses, largely attributed to Hurricane Ike.

Experts believe that climate-related cataclysms like cyclones, flooding and drought will significantly increase damage claims, due in part to strong growth in coastal development.

U.S. and China top the risk list

"Climate change-related natural disasters are on the increase, and the U.S.A. and China top the global risk ranking for economic loss due to natural disasters linked to climate change," Alyson Warhurst of Maplecroft said in an e-mail.

State insurance regulators also see new risks. The National Association of Insurance Commissioners approved the nation's first mandatory climate disclosure requirements last month. They make insurers reveal internal analysis about the effects climate change may have on their solvency.

It's clear that some insurers see new opportunities as Congress considers limiting the amount of carbon dioxide that residents and industries are able to emit.

Two dozen companies now offer pay-as-you-drive insurance -- policies that reward motorists who drive fewer miles and burn less gas. Those discounts can reduce insurance costs by 60 percent, the report says, perhaps encouraging more people to hop on a bike or take public transportation.

Transportation accounts for 25 percent of the nation's greenhouse gas emissions. Insurance policies promoting less driving and purchases of hybrid vehicles could reduce that total output to 10 percent, according to the study.

"Industry has moved far up the learning curve," Mills said in an interview. "But I think there's a lot of pent-up demand for it. Consumers want more."

U.S. insurers have traditionally trailed their European counterparts in the realm of climate change. But with increased activity around new policies and services, that may be changing. U.S. companies are delving deeper into renewable energy investments, carbon offsets and adding new understanding to the climate debate through computer models.

"The potential that we've always seen for insurers to be a part of the solution to climate change is finally being realized," said Andrew Logan of Ceres, a group of environmentally minded institutional investors that helped fund Mills' report.

Logan added, however, a caveat: "It's not the scale that we think is required."

Americans trail 'thoughful' Europeans

Insurers invest massive amounts of money in sprawling portfolios, about $16.6 trillion in 2005. Regulators and environmentalists are paying greater attention to those assets. Real estate holdings might become imperiled from sea level rise, for example, and investments in utilities could be threatened by regulations curtailing carbon emissions.

Last year, the industry invested $11 billion in "low- and no-carbon technologies," the report found. That's almost twice as much as in 2007.

Yet the report said that amount is "a vanishingly small proportion" of the industry's total investments. Logan wonders if the industry is "even paying attention" to climate risks on its assets. "They're really behind the ball," he added.

Climate leaders within the industry are hesitant to criticize slower-moving companies, saying every outfit faces different risks, often determined by regional weather events, local markets and unique financial capacity. Changing climate science and behavior-changing effects that new policies, like those based on miles driven, could have on revenue make climate change a daunting, but potentially lucrative adventure, many industry officials say.

"I see this is as the early stage of the industry coming to terms with the risks and opportunities of climate change," said Frank Nutter, president of the Reinsurance Association of America, a leader on the issue. "I think Europeans continue to be more thoughtful about climate change."

Frustration: Insurers are not environmentalists

Considerable activity is occurring around green buildings. At least 22 insurers now offer nearly 40 products that encourage the use of techniques to save energy in new construction, upgrades and rebuilds, the report says. Advances have occurred not only in the quantity of these policies but in their sophistication, Mills said.

With U.S. buildings accounting for 38 percent of the nation's emissions, those policies can take the punch out of global warming. Green building standards can reduce greenhouse gas output by 50 percent, the report says.

"Industry awareness is increasing," said Lindene Patton, who is in charge of creating new policies related to climate change for Zurich Financial Services. The European company is offering one of the first programs to underwrite liability associated with carbon capture and sequestration.

Still, insurers face challenges ahead, she said. Better policies to lessen the physical -- and financial -- impacts of floods, hurricanes and storm surges are needed. That needs to be done not just for the environment but for the industry. Insurers are the first to absorb the financial gut punch from big storms, having to rebuild communities, pay lost revenue and shoulder other costs when prices are high during natural catastrophes.

"We are a shock absorber," Patton said.

Awareness 'still in its infancy'

While the report is generally positive about insurers' response to climate change, it does say the industry is "still in its infancy" in terms of understanding and adapting to environmental changes.

Some industry officials believe insurers are being pressured to advance political motives related to reducing emissions. A big industry can be influential, they believe, and environmental advocates would like insurers in their corner.

But unlike other risks that insurers have helped helped mitigate, such when the industry tackled car safety by imposing seat belt standards, the effects of climate change are not as easily determined. Weather is sporadic, and the effects are random and local. Meanwhile, scientific findings are always changing, these officials say.

It's unknown if new policies contoured around those risks will be profitable, said David Kodama, a climate policy expert with the Property Casualty Insurers Association of America.

"It's great to say green roofs will be good for the environment," he said. "But at the end of the day, our responsibility is to our shareholders."

For more news on energy and the environment, visit www.climatewire.net.