



Mindy S. Lubber: Insurers confront global warming

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A NEW REPORT linking global warming with more powerful hurricanes is only the latest evidence of why climate change is perhaps the greatest threat that the insurance industry may ever face. It is an equally serious threat to those whom it insures -- a reality New Englanders know all too well.

As land and ocean temperatures rise, the additional energy appears to be creating more intense weather systems around the world. More powerful hurricanes in the North Atlantic are the most obvious example -- a reality further validated by last week's report from 19 climate scientists, which found that sea-surface temperatures in hurricane-breeding regions in the Atlantic and Pacific are probably rising because of greenhouse-gas emissions in the atmosphere. But insurers are also seeing rising losses inland, because of record heat waves, more powerful hailstorms, and more damaging wildfires.

While this summer's hurricane season has been much quieter than last, so far, the ripples from last year's devastating hurricane season are still being felt. In the wake of Katrina, insurers were hit with record claims, rating downgrades, and class-action lawsuits. Consumers in a dozen coastal states are feeling the double whammy of premium hikes or no coverage at all.

In Florida and Louisiana, more than 600,000 home owners' policies have been canceled or not renewed in the past year. In Rhode Island and Massachusetts, insurers have pulled coverage for tens of thousands of coastal home owners, as risk models project devastating storms in ever more densely populated coastal regions. Home owners managing to find coverage are paying up to twice as much. So serious is the insurance crunch in Rhode Island that lawmakers will be holding hearings on the topic this fall.

Governments and taxpayers are also feeling the sting. As more private insurers refuse to take on new policies or renew existing ones, mandated state-run insurance pools are being forced to take on more customers and more financial exposure. Florida's state insurance pool has swelled to over 1 million customers and it recently needed a \$715 million bailout from the Florida legislature to cover hurricane losses.

Federal insurance programs are faring no better. With more claims in 2005 than in its entire 37-year history, the U.S. flood-insurance program was bankrupted 10 times over by Hurricane Katrina.

But crisis often breeds opportunity, and climate change is no exception. The insurance industry is beginning to develop creative loss-prevention solutions and products to reduce climate-related losses for consumers, governments, and insurers. Many of those solutions have a poignant secondary benefit: They also reduce the pollution that is causing global warming.

A new report from the Ceres investor coalition shows that the insurance industry has made an

encouraging start in grappling with climate change. It identifies 190 innovative products and services available or in the pipeline from dozens of insurance providers in 16 countries. Consider:

Fireman's Fund Insurance is launching first-of-its-kind "green coverage," which includes incentives for commercial-building owners who reconstruct damaged properties using LEED-certified (Leadership in Energy and Environmental Design) green building practices.

Rhode Island-based FM Global avoided \$500 million in property damage from Katrina by encouraging extensive hurricane-loss-prevention engineering measures at 500 commercial properties on the Gulf Coast.

Industry giants Marsh and AIG are offering new renewable-energy-related insurance products, which will let more companies participate in carbon-offset and carbon-emissions-trading markets.

Other insurers encourage energy efficiency and sustainable driving, such as lower premiums for clients who drive hybrids or drive fewer miles a day.

But given the urgency of the climate-change crisis, much more needs to be done. Most U.S. insurers are not yet experimenting with these products, nor are adequate resources being invested by government or insurer-funded associations. Greater efforts are also needed from lawmakers and other policymakers to get more of these creative programs into the public arena.

Insurers have a long, successful history in risk management and loss prevention -- and making the world safer by promoting fire-prevention tools, building codes, and vehicle crash-testing. Perched on the front line of risk from climate change, insurers must now take more action -- quickly, creatively, and decisively. It's the only prudent course.

Mindy S. Lubber is president of Ceres, a Boston-based coalition of investors, environmental groups, and other public-interest organizations working with businesses on sustainability challenges such as global climate change. The report above can be found at <http://www.ceres.org>.

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