Insurers told to do more to tackle climate change

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By Simon Challis, European Insurance Correspondent

LONDON, Sept 5 (Reuters) - Insurers, whose finances could be stretched to breaking point by climate change, stand accused of doing too little to research global warming or devise products to mitigate its potentially catastrophic effects.

Unless climate change slows, insurers warn, years like 2005, when their catastrophe bill topped $80 billion, could become the norm, with premiums for those in disaster-prone areas soaring, and some regions becoming uninsurable.

But insurers have been criticised for not doing enough to encourage their clients to be more environmentally friendly.

"It is in the industry's best interests ... to seize this moment to act on what is likely to become the greatest risk the industry has ever faced," concluded a recent report by Ceres, a powerful coalition of American investors, environmental groups and other public interest organisations.

There is a dearth of innovative insurance products to help mitigate climate change, despite the fact that, as part of the world's largest industry -- with $3.4 trillion in annual premium income and $1 trillion in investment income -- insurers have huge power to influence behaviour, Ceres said.

Insurers have made big half-year profits, while hundreds of thousands of American homeowners have had their property policies cancelled or not renewed or seen their premiums leap after the big hurricanes of 2004 and 2005.

"The danger for the insurance industry is that it could become incredibly unpopular because it is not seen as taking its share of responsibility for increases in risk as a result of climate change," said Robert Muir-Wood, Chief Research Officer at Risk Management Solutions.

"They need to be seen as putting something back in, and they need to be seen as being part of the solution, not simply walking away from the problem," said Muir-Wood, whose company devises models that assess the impact of disasters on insurers.

COMPETITIVE MARKETPLACE

Insurers, wary of being accused of "greenwashing" their businesses through a few token products and initiatives, have begun low-key research in this area, for example, to find out how good a risk drivers of low-emission cars actually are.

But competition is so tough that it is difficult for individual firms to offer incentives to clients to be greener, said Andrew Dlugolecki, who runs a consultancy advising financial services companies on climate change.

"They can't afford to offer discounts willy-nilly," Dlugolecki said, because with competitors snapping at their heels, they can only offer discounts that correspond with risk reductions rather than environmental advantages.

And since the environmental benefits might not be realised for 40 years, "an underwriter would say: 'Why should that affect the premium I charge next year?'" Dlugolecki said.

TOO SHORT TERMIST

The insurance industry is too short-sighted, says Matthew Criddle, managing director of Naturesave, a British firm that is, as he puts it, "one of the few examples on the planet of a general insurance broker that is trying to use the insurance industry as a vehicle for sustainable development".

Criddle said: "The industry's willingness to undercut each other to get business makes it tough for any insurer or broker to try to influence the behaviour of their clients in a way that would benefit the environment."

Naturesave offers clients premium discounts for using energy-saving devices, solar hot water systems and wind turbines, while putting 10 percent of the premium paid into a fund that gives grants to environmental and conservation projects that assist the greater commercial adoption of sustainable development.

Criddle, who drives a Toyota Prius hybrid car and counts the Dalai Lama among Naturesave's clients, thinks insurers are missing an opportunity by not offering more products to cater for the growing number of environmentally conscious consumers.

"We've been trying to lobby the insurance industry, saying 'Look this is good business. We have good market share, good client retention and good take-up of our quotes'," said Criddle.

"Price is not the main determinant for our clients," he said.

Naturesave has seen its business grow by between 10 and 30 percent a year for the past five years.

"I just wish we had the money to take it on to the next level. If I had 25 million pounds I could make this into the green Direct Line," he said.