This is a printer friendly version of the article. To print, please use your browser **Print** function.

October 24, 2007

Risking the Weather: The Insurance Sector Faces Climate Change

by Anne Moore Odell

A new report sponsored by Ceres and written by Evan Mills, one of the recipients of the 2007 Nobel Peace Prize with Al Gore, highlights new products offered by the insurance sector in response to the changing climate.

SocialFunds.com -- The insurance sector and its investors are watching the weather. With $16 trillion in global invested assets and generating about $4 trillion in premium revenue in 2006, the insurance sector is the world's largest economic sector. It faces huge upheavals as the climate changes and the possibility of extreme weather events like hurricanes, droughts and fires increase.

Ceres is a non-profit coalition of investors, environment groups and public interest groups, which also includes the members of the $4 trillion Investor Network on Climate Risk (INCR). Ceres recently released a new report about the potential impact of climate change on the insurance sector, and what some consider the industry's lackluster response to the issue so far.

“We are concerned as investors that the response of the insurance industry to climate change so far, especially in the US, has been fairly reactive,” said Andrew Logan, Director of the Insurance Program for Ceres.

Logan continued, “Companies have tended to focus on reducing their risk exposure through financial means, by raising prices, excluding coverage and generally pulling back from at-risk areas. However rational that might be in the short-term, it is leading to a backlash from consumers and regulators and won't work in the long-term, in any case.”

European insurers and re-insurers like Swiss Re, Munich Re and Allianz have been warning about the potential consequences of climate change for years, Ceres notes. Munich Re has calculated that by 2050, climate change could cost up to $300 billion annually in weather-related damages, industrial and agricultural losses, and other associated expenses.

Entitled “From Risk to Opportunity 2007: Insurer Responses to Climate Change,” the report was written by Dr. Evan Mills, a scientist with the Intergovernmental Panel on Climate Change, which shared the 2007 Nobel Peace Prize with former Vice President Al Gore. Mills is also a staff scientist at the Lawrence Berkeley National Laboratory, a national lab of the U.S. Department of Energy, managed by the University of California.

The number of climate related products and activities offered by insurance companies is rapidly growing. The report examines over 400 different insurance products offered by insurance companies from around the world. This is twice the amount of climate change products offered just 14 months ago when the last Ceres' study was written. Since Mills' first report on this issue in 1999, there are 15 more times the number of examples of climate change related products.

Yet Ceres notes that only one in ten of the insurers in the report are working in a visible way to understand the mechanics or implications of climate change. Only a third are offering innovative products and services.

Studying the insurance sector provides a unique perspective on treating climate change as a risk to be managed, rather than being paralyzed or distracted by uncertainties Mills thinks. “Insurers routinely make business decisions in conditions with significant uncertainty,” Mills told SocialFunds.com.

“Insurers also track the trends and economic costs of extreme weather events, which provides an unparalleled database of information. Insurance embodies the concept of precautionary strategies; we all buy insurance even though we know that the odds are against us ever needing it,” Mills added.

US companies account for 40% of the new products and activities that cover, for example, carbon emission trading, driving practices, and energy efficiency.

The insurance industry has the potential to greatly reduce greenhouse gas (GHG) emissions by creating policies that provide discounts to owners of green buildings, or that promise to upgrade non-green buildings in the event of a loss the report states. Buildings account for more than a third of US GHG emissions, Ceres reports.

One interesting policy some US insurance companies are working on is pay-as-you-drive auto insurance policies. Although popular in other areas of the world, these policies are just being explored in the US. They have been shown to reduce miles driven by 10-15%, which in the context of the US represents a huge potential to reduce GHG emissions. They also can save consumers money.

Ceres’ Report appendixes list global insurance companies and provide a snapshot into how much each company is doing in response to climate change. An appendix also identifies companies that have responded to the yearly survey of the Carbon Disclosure Project.

Aon Risk Services, with headquarters in Chicago, has answered the Carbon Disclosure Project surveys for the last two years and is earmarked by the Report as “Leading through example” and “Understanding the climate change problem.” The report singles out Aon’s early work establishing a Climate Change Solution group that helped clients create carbon risk-management strategies.

However, establishing the direct connection between carbon emissions, companies releasing CO2, climate change and more severe storms is yet to be proven scientifically or legally according to Rodney Taylor, Aon’s managing director of its Environmental Group.

Taylor noted that although there have been cases in the courts where claims have been made against companies that release CO2 in the atmosphere--most notably the state of California’s recent suit against six major automobile manufacturers--none of the suits have been successful. However, these cases are costing insurance companies millions of dollars to defend.

Insurers themselves have a major opportunity to reduce their own carbon footprints. Mills indicated that for 20 major insurers reporting their emissions to the Carbon Disclosure Project, there is an eight-fold range in emissions per employee.

“People think that insurer emissions are negligible, but office buildings such as those occupied by insurers make a major contribution to the global ‘carbon pie,’ as does business travel,” said Mills. “The average per-employee emissions is about equal to that for each employee's home or their personal transportation activity.”

Insurers influence public policy by helping to shape voluntary and mandatory standards of all sorts, ranging from highway speed limits to building codes. The Report notes how insurance companies have called on the federal government to act to legislate the reduction of greenhouse gases. They also have tremendous influence in political debates about issues like land-use planning and energy policy.

Ceres' Logan concluded, "Insurers are really uniquely positioned to deal with climate change in a very broad way, by encouraging society to physically adapt while also encouraging behavioral change that will hopefully make climate change's impacts less severe, all while serving the ultimate goal of increasing revenue, reducing risk and maintaining the long-term viability of insurance as a key engine of global economy."

Order reprints | Send it to a friend | Print it | Save it

Related Articles

- New Eurosif Reports Identify ESG Challenges in the European Food and Insurance Sectors
- Concerned Investors and Businesses Call for Congress to Pass a Carbon-Cap or Wear a Dunce Cap
- S&P 500 Lags on Climate Disclosure, Electric Utilities Burning Economic Value Into Carbon

Top

Home | Individual Investors | Institutional Investors | Financial Professionals | Media Center
Do your own Research | Work with a Professional | News | Learning Center
home | about | search | register | login | contact