A new report from Ceres identifies almost 200 activities recently introduced by insurers to address climate change, but calls the industry for further action.

SocialFunds.com -- The insurance industry inhabits a pivotal position in addressing climate change—but is only just beginning to fulfill the potential of this role, according to a new report from Ceres, a coalition of investors and environmental groups that promotes corporate sustainability. Entitled From Risk to Opportunity: How Insurers Proactively and Profitably Manage Climate Change, the report 190 real-world examples of climate risk mitigation strategies and profit opportunities from 104 insurers in 16 countries.

"These activities represent an encouraging start, but only the tip of the iceberg when compared with what the industry could be doing and what is needed," state report authors Evan Mill and Eugene Lacomte. Dr. Mill is a scientist at the Lawrence Berkeley National Laboratory and a co-leader of the Intergovernmental Panel on Climate Change (IPCC) Third Assessment Report's insurance chapter. Mr. Lacomte is president emeritus of the Institute for Business and Home Safety (IBHS) and a 50-year insurance industry veteran.

"Most US insurers have yet to even experiment with these novel ideas, presumably because many companies have not looked closely at the underlying question of climate change," Dr. Mill and Mr. Lacomte add. "No one insurer has developed what we would consider a comprehensive portfolio of best-practice strategies, nor are adequate resources being invested in these endeavors."

The report notes that insurance represents the world's large with $3.4 trillion in yearly premium revenue plus another trillion in investment income. This structural duality both lends credibility to the sector in setting the agenda for mitigating climate risk opportunities to profit from the transition to a carbon-constrained economy, and also makes the sector very vulnerable.

"Tremendous concern has been expressed about the potential 'correlated risks' from climate change that simultaneously increase insurer's underwriting losses and also negatively impacting assets that the insurer uses to pay off those claims," state the authors.
On the flip side, this potential double-whammy heightens the incentives for insurers to use their role in quantifying the monetary cost of risk to inspire more comprehensive responses to climate change amongst both the insured and companies held in insurance investment portfolios. The 190 activities identified by the researchers (half of which involve US-based companies) span the gamut, from underwriting to more general climate-related policies and disclosures.

Underwriting examples include new “green” coverage from Fireman’s Fund, an Allianz (ticker: ALVG) subsidiary, which rewards energy-efficient building practices certified by the Leadership in Energy and Environmental Design (LEED) program—especially for rebuilding on a claim. While these practices clearly advance environmental benefits, they also represent smart business by reinforcing buildings against future damage and losses. The authors highlight similar links between environment-friendly practices and insurance risk reduction throughout the report.

Investment examples include the launching of the Green Fund to invest in corporate environmental leaders by AIG (AIG) subsidiary American International Assurance in the Hong Kong Mandatory Provident Fund Market. AIG’s Japanese SRI equity fund also includes environmental selection criteria.

Ceres also applauds AIG (the world’s largest insurer) and Marsh (MMC—the world’s largest broker) for issuing statements recognizing climate change this year.

“Prior to this, US insurers had been largely silent on the issue,” state the authors in the report.

In terms of disclosure, AIG is the only US-based insurer to participate in the Carbon Disclosure Project (CDP), an investor coalition surveying corporate transparency on greenhouse gas (GHG) emissions and policies, all three years so far (from 2003 through 2005). In contrast, all of the non-US insurers listed in the report have responded to CDP-3, the most recent version of the survey.

The report also looks at practices that have yet to be implemented but show great promise for addressing climate change. For example, Swiss Re (TUKN.SW—the world’s largest reinsurer) has floated the idea of issuing directors and officers (D&O) insurance contingent on corporate governance around climate-related issues.

“Chris Walker of Swiss Re . . . notes that energy giant ExxonMobil accounts for roughly one percent of global emissions and has aggressively lobbied against any efforts to reduce greenhouse gases,” states the report. “‘So,’ said Walker, ‘we might go to them and say, ‘Since you don’t think climate change is a problem, we’re sure you won’t mind if we exclude climate-related lawsuits and penalties from your [Directors & Officers] insurance.’”

The report ends with a ten-point strategy for insurers to address climate change. In addition to the strategies listed above, the report others such as actively participating in carbon markets as in risk managers and reducing insurers’ own carbon footprints as a positive example.

“Given that insurance is the world's largest economic sector
insurers reach virtually every consumer and business in developed countries, the prospect for their involvement in the development and promotion of climate change mitigation strategies stands as but as yet largely untapped opportunity," the report concludes.

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