Claims on the Global Warming Debate

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The global warming debate is often cast as one between capitalists and environmentalists. Given the specter of increased natural disasters in a warming world, the insurance industry occupies a refreshing middle ground. With annual revenues topping $2 trillion --four times those of big oil -- the concerns of this mammoth industry can hardly be ignored.

The scientific uncertainties about climate change are a side issue for insurers. For this industry, the absence of certainty is not synonymous with the absence of risk.

Natural disasters represent 85 percent of insured catastrophe losses globally, or $12.4 billion in 1995. Climate changes wrought by global warming may be driving these costs higher. Wildfires that raged in Indonesia this fall, sparked by the unfortunate combination of deforestation and drought, and the looming threat of major weather-related disasters this winter due to El Nino are the kinds of costly events that some insurers fear will become more frequent if society continues to pump greenhouse gasses into the atmosphere.

According to Franklin Nutter, president of the Reinsurance Association of America, nearly half of the insured losses from natural disasters during the past four decades have been incurred since 1990. He summed up the threat this way: "The insurance business is first in line to be affected by climate change; it could bankrupt the industry."

The first public statements by insurers on climate change date back nearly a decade. Munich Re, the world's largest reinsurer, was among the first voices. Swiss Re stated early on that "the phenomenon of climatic change is not some vague threat. . . . Human intervention in the natural climatic system could accelerate global climatic change to such an extent that society might no longer be able to adapt quickly enough."

Then came the most costly storm in the industry's history. Hurricane Andrew, with insured losses of $17 billion, put a number of insurers out of business. Had Andrew struck just 20 miles farther north, those losses would have mounted to a staggering $50 billion.

Insurers soon began to enter the public policy process, facing off against industries trumpeting contrary views. Representatives of Munich Re, Swiss Re, Storebrand of Norway and Lloyd's of London attended government talks at the Berlin Climate Summit of 1995.

The most prominent industry expression of concern is the "Statement of Environmental Commitment by the Insurance Industry," signed by 71 insurance and reinsurance companies from 25 countries. This group, convened under the aegis of the U.N. Environment Programme (UNEP), was spearheaded by European and Asian insurers but includes insurers from all major regions of the world. Among them are developing countries and economies in transition, and three of Japan's largest insurers.

At the second international climate negotiations, the UNEP group presented a position paper that stated: "Climate change may alter the frequency and/or severity of extreme weather events and/or their regional distribution . . .. It is clear that even small shifts of regional climate zones and/or storm patterns carry the potential of increased property damage . . .. The property insurance industry is the financial sector most likely to be directly affected . . . Changes in human health (e.g. spreading of diseases) may affect the life assurance and pension industries."

They went on to demand that governments seek substantial reductions in emissions, stressing that action should not be delayed in the name of more research. Their presence at the negotiations in Kyoto again demonstrates that environmental protection and good business can, and indeed must, go hand in hand.

Most U.S. insurers have been conspicuously silent, and only one thus far has joined the UNEP initiative. Even the leading European companies haven't done as much as they could to translate good words into meaningful deeds.

Is there a non-controversial case to be made for insurer involvement?

Since energy use is the largest contributor to greenhouse-gas emissions, stimulating the energy efficiency and renewable energy markets is essential to an effective climate strategy.

Of particular relevance to insurers: Certain efficiency measures also prevent losses involving property, health/life or liability, while rapidly paying for themselves through lower energy bills. A notable case in point concerns energy-guzzling halogen torchiere light fixtures, in the news recently for causing large numbers of fires. In response, Arkwright Mutual Insurance is actively promoting super-efficient and fire-safe replacement fixtures.

Renewable energy technologies offer similar dual benefits. General Accident notes that using certain wastes to grow renewable biomass fuels preempts liability insurance claims otherwise caused by leakage of those wastes into soils and waterways. Renewable electric supply systems, such as wind turbine arrays, can increase the reliability of power grids, which means lower business-interruption claims following disasters. Hydroelectric dams help control flood waters. Solar cells can be used to power disaster-recovery operations, and a new generation of solar roof tiles promises to make homes more resistant to hailstorm damage.

Strategic deployment of sustainable energy options will reduce ordinary business risks while making a considerable dent in greenhouse emissions that also threaten insurance companies' bottom line. As President Clinton stated recently in a speech about climate change: "We must begin now to take out our insurance policy on the future."

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