Are Insurers Getting Serious about Climate Change?

For over ten years, Evan Mills has been tracking the response of the insurance industry to climate change. As a staff scientist at Lawrence Berkeley National Laboratory in California, Mills has published some of the most important research in the field, including articles for Science and Forbes, and contributed as a lead author to the influential Third Assessment of the UN Intergovernmental Panel on Climate Change (IPCC).

‘One thing is looking at the vulnerability of the business; the other is to look at opportunity, and there is plenty of opportunity,’ says Dr. Evan Mills about the potential impacts of climate change on the insurance industry.

Mills is also a member of the Earth Institute’s Economics and Public Policy Working Group chaired by Jeffrey Sachs, which meets this month in New York as part of the Global Roundtable on Climate Change. Ahead of the meeting, we talked to him about how the insurance industry is reacting to climate change, and the challenges and opportunities of climate change for insurers around the world.

Dr. Mills, in general, how is the US insurance sector responding to climate change? How serious are they taking it now?

The natural tendency is to respond to rising losses by raising prices, restricting terms and conditions, and even withdraw from markets altogether. We have been seeing a worrisome amount of this in the United States over the past few years. Fortunately, there is a small but growing vanguard of insurers who are taking a more proactive approach.

However, if you look at things like the Carbon Disclosure Project (CDP), the report card industry-wide is not that good. There are companies that have made a good showing there, but most have not. Among the US insurers, only one in four companies that were sent the CDP's survey actually answered it, whereas in the rest of the world, virtually all the insurance companies who were asked completed it. Understandably, some insurers are saying, "we are not emitters, why are we even being sent this survey?" And that's often the kind of rhetoric that we hear, but when insurance companies think twice, the reasons become clear.

What accounts for the different approaches of US and non-US insurers?

I think it's many things; not one thing in particular. There is more of a tradition of science within the European and Asian countries and companies than there is here. There is obviously a very different political context. Insurance companies in most other countries are more encouraged by their governments to engage in the issue. There is also more of a long-term view in the industry in general. As indicated most recently by the Stern Review, climate change is being viewed very much as an economic problem outside the United States, whereas within the United States the politics have become a distraction from the factual dimensions of the problem.

It is not like one side is angels and the other devils, but "greenness" and sustainability are more integrated into corporate culture in Europe and Asia than they are in the United States. And there's more reinsurance in Europe, so there's more of an intrinsic sense of global relevance.

You've mentioned elsewhere that there is a real need to look at the impacts of climate change on insurance in the developing world. Why?

The vulnerability and the risks of climate change in the developing world are much higher than in industrialized countries. If insurance companies in Switzerland or California are half-worried about it, they should be really worried about it in Manila. I think that climate change could turn out be a real impediment to the expansion of the insurance industry globally.