THE CHRISTIAN SCIENCE MONITOR csmonitor.com

from the October 13, 2006 edition - http://www.csmonitor.com/2006/1013/p01s01-usec.html

New combatant against global warming: insurance industry

The world's second-largest industry, worried about losses related to climate change, offers incentives to 'go green.'

By Ron Scherer | Staff writer of The Christian Science Monitor

NEW YORK

Insurance companies, who like to stay out of the limelight, are becoming leading business protagonists in the assault on global warming.

• Next week, Travelers, the giant insurance firm, will offer owners of hybrid cars in California a 10 percent discount. It already offers the discount in 41 other states and has cornered a large share of the market.

• This fall, Fireman's Fund will cut premiums for "green" buildings that save energy and emit fewer greenhouse gases. When it pays off claims, it will direct customers to environmentally friendly products to replace roofs, windows, and water heaters.

• In January, Marsh, the largest insurance broker in the US, will offer a program with Yale University to teach corporate board members about their fiduciary responsibility to manage exposure to climate change.

The insurance industry's clout is sizable. It's the second-largest industry in the world in terms of assets, and has a direct link to most homeowners and businesses. It insures coal-fired power plants as well as wind farms, so it can influence the power industry's cost structure. With its financial muscle, the industry could help advance the use of new financial instruments designed to allow companies to trade greenhouse-gas emissions in the same way that commodities are bought and sold.

"The insurance industry has the ability to change behavior, policies and communicate with clients," says Nancy Skinner, US director of the Climate Group, which lobbies for business and government action to address global warming.

Some consumers are already noticing a negative effect of this shift. In the past year, some 600,000 homeowners living in a zone that an insurer considers a high storm risk in an era of climate change have seen their policies cancelled or not renewed. This includes coastal areas stretching from Texas to New York. Currently, coastal properties are valued at $7.2 trillion.

Reassessing risk

One reason for this massive change in coverage is an ongoing shift in the way insurance companies view risk. Insurers are starting to change their risk-assessment models to reflect future climate-change scenarios instead of past weather patterns.

"Climate change represents an ever- increasing risk, a risk far too great to ignore," says Clement Booth, a member of the Board of Management at Allianz AG, one of the world's largest insurance firms.

This week, Allianz, in cooperation with the World Wildlife Fund, issued a report on steps the insurance industry could take to reduce the physical impact of global warming or to help society adapt.

"The industry is in a unique position to incentivize," says Miranda Anderson, an author of the report and a vice president at David Gardiner & Associates. "This is the very beginning of thinking through this issue."

In fact, the industry is not driven just by an attempt to help the environment: It also wants to make money. In Travelers' case, the impetus to give a policy discount on hybrid cars came when Greg Toczydlowski, a senior vice president of product management, was gassing up his wife's Ford Excursion.

"A hybrid zipped in and out while I was still pumping, and it occurred to me it takes so little gasoline and runs so much longer on a tank," says Mr. Toczydlowski. "I came back and did research on how many hybrids are out there and what's the profile of the customer. We discovered it was a preferred customer - middle-aged, very responsible, and stable financially."

Now hybrid owners, besides saving on their fuel bills, can save money on their auto insurance - about $100 a year, according to Travelers.

Attentive state regulators

The attention on climate change is likely to receive a boost from state insurance regulators, who had planned to discuss its risks in September 2005 in New Orleans, at their annual meeting. Hurricane Katrina intervened, however, and the meeting was moved to Chicago.

"As a result, regulators spent an enormous amount of time on climate change and what changes to promulgate to make sure the companies are financially sound," says Mindy Lubber, president of Ceres, a coalition of investors, environmental groups, and public-interest organizations in North America.

Ceres has made two reports on what the insurance industry can do to profitably manage climate change. In a report issued in August, Ceres details some steps currently under way, such as Swiss Re's investment in new solar technology, Munich Re's insurance renewable energy projects, and Lloyds of London's insurance on predicted energy savings.

In the US, one of the more unique and potentially far-reaching efforts will be rolled out this fall by Fireman's Fund. After a building is damaged, Fireman's will specify that it must be repaired with "greener" materials, including consumer electronics that must have Energy Star ratings from the Environmental Protection Agency. If a building is a total loss, it will be rebuilt as a "green" building. The insurer also plans to pay for an engineer to make sure ventilation systems and boilers are installed properly, which could also save energy.

"All the evidence suggests [that] if you decrease energy usage in a building, the owner's net operating income increases and you will improve the asset value," says Steven Bushnell, product director of Fireman's, owned by Allianz.

Insurance companies, adept at managing risk, are also trying to educate their customers. Marsh and Yale will train 200 board directors to understand risks of climate change. Again, part of the motivation is money: Insurance companies provide liability insurance for board members.

Full HTML version of this story which may include photos, graphics, and related links